

ESG

INVESTMENT

TOWARDS SUSTAINABLE
DEVELOPMENT IN ASEAN AND JAPAN

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NOTE

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FOREWORD

Japan enacted the Stewardship Code in 2014 and the Corporate Governance Code in 2015 with the aim of helping companies achieve sustainable growth and boost their medium- and long-term value by encouraging investment and dialogue, managing risk, and promoting the transparency of financial and non-financial information. This was a sign of the growing awareness and interest in the importance of environment, social, and governance (ESG) factors for companies and investors. This was further bolstered with the signing of the United Nations-supported Principles for Responsible Investment by Japan's Government Pension Investment Fund and the establishment of the Working Group on Incorporating Issues Regarding Sustainability into Investment (ESG Working Group) in 2015.

However, despite these promising developments, a lack of understanding of the importance of ESG investment still remains among investors and policymakers, both in Japan and in Association of Southeast Asian Nations (ASEAN) countries. Debate persists on the relationship between ESG investment and economic or real performance and the optimal methods for integrating ESG factors into investment decisions. As the demand for ESG investment is growing around the world and ESG investment is associated with greater profitability, understanding of ESG investment and the ways in which companies can utilize ESG factors is critical.

This report has the following three objectives:

1. To encourage investors to invest responsibly by building a basic understanding of ESG investment in the following aspects: (a) the essence of ESG investment; (b) global ESG investment, trends, and prospects; (c) ESG investment performance in ASEAN enterprises and best practices; and (d) recent policy developments and key issues.
2. To enhance the capacities of and dialogues between investors and policymakers through the better understanding of ESG investment in terms of the challenges and policy solutions.
3. To contribute to a better, more sustainable investment environment and society for Japan and ASEAN countries.

Building from this report, AJC will host discussions on ESG investment trends and prospects in ASEAN at its Environmental, Social, and Governance Investment Forum, which will take place at the Stock Exchange of Thailand, Bangkok, on 19 March 2019. It is a step towards finding solutions to ensure a new paradigm of investment that benefits all stakeholders and creates a better and more sustainable investment environment and society.

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ABBREVIATIONS

AJC	ASEAN-Japan Centre
ASEAN	Association of Southeast Asian Nations
CO ₂	carbon dioxide
CPF	Charoen Pokphand Foods
CSR	corporate social responsibility
CSX	Cambodia Securities Exchange
DJSI	Dow Jones Sustainability Indices
ESG	environmental, social, and governance
FTSE	Financial Times Stock Exchange
GHG	greenhouse gas
GRI	Global Reporting Initiative
GSIA	Global Sustainable Investment Alliance
HNX	Hanoi Securities Trading Center
HOSE	Ho Chi Minh Stock Exchange
IDX	Indonesia Stock Exchange
IVL	Indorama Ventures Public Company Limited
KRX	Korea Exchange
Lao PDR	Lao People's Democratic Republic
LSX	Lao Securities Exchange
MSME	micro, small, and medium-sized enterprises
OECD	Organisation for Economic Co-operation and Development
PRI	Principles of Responsible Investment
PSE	Philippine Stock Exchange
PTTGC	PTT Global Chemical Public Company Limited
R&D	research and development
SDG	Sustainable Development Goals
SET	Stock Exchange of Thailand
SGX	Singapore Exchange
SSE	Sustainable Stock Exchanges
SSE (China)	Shanghai Stock Exchange
SZSE	Shenzhen Stock Exchange
TSE	Tokyo Stock Exchange
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
UNEPFI	United Nations Environment Programme Finance Initiative
UNPRI	United Nations-supported Principles for Responsible Investment
YSX	Yangon Stock Exchange

KEY MESSAGES

ESG investment is for all investors

Since ESG investment is originally from the financial market, it is commonly perceived that it is only for financial investors. However, ESG factors should be a priority for all investors, including investors in the real sector or entrepreneurs. ESG is not only important as a signal to investors, but, as it is value-generating and conducive to business objectives, it is crucial for maximizing profit for all companies. ESG can even help new companies and micro, small, and medium-sized enterprises to enhance their productivity and competitiveness. Therefore, all companies, regardless of their size or whether they are listed on a stock market, should integrate ESG investment into their core business strategies and consider ESG investment as an essential part of their growth strategies.

ESG investment is moving from niche to norm

There is growing demand for ESG investment around the world and gradually to Asia, especially ASEAN. ASEAN-5 shows a promising trend of ESG investment, whereas more efforts are necessary for the rest of the Member States.

ESG investment is associated with greater profitability

ESG investment helps firms lower costs and boost revenue and profits. An important finding is that ESG firms' profitability is, on average, higher than that of non-ESG firms.

ESG investment has only been implicitly and unsystematically implemented in ASEAN firms

This implies potential growth for ESG investment in ASEAN countries. The main challenge is that even though ESG factors are found in firms' sustainability and governance strategies, those firms face difficulties in fully integrating ESG investment in their core business strategies. Therefore, further efforts should be spent on the explicit and systematic integration of ESG investment.

ESG investment is implemented creatively and innovatively among ASEAN firms

ASEAN ESG firms are highly creative and innovative in integrating ESG investment in their business strategies. Taking into account ESG factors, they offer new business solutions and products to their clients while utilizing new technology and innovation in their production.

ESG investment in ASEAN is promising, but challenges remain

At present, ASEAN firms have not fully integrated ESG investment in their core business strategies. This challenge comes from several factors, including (i) misperceptions about ESG investment, (ii) limited capacity to fully integrate ESG investment, and (iii) insufficient guidelines and support from exchanges and the government. In addition, there is still a weak link between ESG investment and the

achievement of the Sustainable Development Goals (SDGs). Further progress by firms, exchanges, and policymakers is particularly important given this context. These challenges should be addressed urgently to take advantage of the growth potential for ESG investment.

ESG investment can be fully integrated into core business strategies through the following practical steps. (i) Changing perceptions towards ESG investment to recognize its increasing importance and the demand for ESG; (ii) planning for an effective ESG strategy by pursuing quantifiable targets and understanding the sustainability issues faced by specific businesses and industries; (iii) taking creative, flexible, and innovative actions to turn challenges into opportunities; and (iv) working with peers and involving all stakeholders to make full use of their combined knowledge and economies of scale.

ESG investment should be further promoted and supported by exchanges and the government. Regulators and policymakers can help further the progress of ESG investment by (i) communicating the benefits of ESG investment as firms' misperceptions are among the top hindrances to ESG investment; (ii) implementing mandatory sustainability disclosure regulations for both listed and non-listed entities; (iii) providing specific guidelines and support, such as individual consultation sessions, a dialogue that includes all stakeholder; (iv) evaluating firms' ESG performance periodically to promote a competitive environment among firms and involve all stakeholders in the monitoring process; (v) taking advantage of the digital age; and (vi) emphasizing the linkages between ESG investment and the SDGs to create a better, more sustainable investment environment and society.

CHAPTER I

ESG ESSENTIALS

A. WHAT IS ESG?

1. Conceptualization of ESG investment

Environmental, social, and governance (ESG) factors have become an important part of global investment decisions. ESG encompasses a broad array of measures and is receiving increasingly widespread attention and recognition from policymakers, investors, and the public for promoting sustainable working practices and company operations. In particular, investors have begun to realize the contribution of these factors to efficiency, productivity, long-term risk management, and operational enhancement.

ESG represents an approach through which companies can act sustainably by taking action in certain areas and also provide value to their investors, going beyond simple profit. ESG can be seen as an investment, rather than a cost, to signal that a company is sustainable and that it operates responsibly, in turn adding value to society and all stakeholders.

Responsible investment refers to an investment approach that incorporates ESG factors into investment decisions. This consideration of ESG aspects is important because of the potential for affecting financial performance across all asset classes, leading to sustainable and long-term returns and better risk management, including efficiency and production-related benefits. Corporate social responsibility (CSR) signifies a business approach for integrating ESG into firms' management strategies and methods. It goes beyond firms' legal requirements to include areas such as environmental management and community engagement. While CSR is business-centric and not an investment approach, it can help to draw investors who might be attracted by the ability to include ESG factors in their decisions. CSR and responsible investment are distinct from each other in that responsible investment is associated with financial investment (i.e., including investment relating to financial products and instruments). Therefore, its objectives are aligned with those of investors who focus only on financial returns. CSR, on the other hand, focuses on real investment because of its business-based approach.

This report defines ESG investment as any investment that takes ESG factors into consideration. This can encompass both responsible investment as well as CSR related to ESG. ESG investment is distinct as a desirable approach even for investors who only consider financial returns. This is because ESG factors have the ability to increase value and, hence, are intrinsically preferable for investors, both socially and financially. ESG also does not focus on specific areas or themes but is a holistic approach for investors.

ESG can also play a strong role in working towards the United Nations (UN) Sustainable Development Goals (SDGs). The SDGs comprise 17 goals that were agreed upon by countries in 2015 as part of the UN's 2030 Agenda for Sustainable Development. The goals relate to a range of important social and economic issues identified as the main priorities for sustainable development in the coming decades. Many of the goals and the methods for achieving them are interrelated with the activities and business decisions of investors. ESG can contribute to achieving the goals through the enhancement

of sustainability, with benefits including the boosting of economic growth and better risk management. As such, ESG and the SDGs can reinforce each other through their common objectives.

2. Scope of ESG

ESG factors are traditionally non-financial or non-material in nature and are usually qualitative. This means that it is often difficult to measure them in quantitative terms. They also generally have a medium-to-long-term horizon and are subject to changing regulations and policies. Their scope can also vary greatly depending on the industry. Industries that have a heavier reliance on resources may, for example, have differing ESG factors or place greater significance on certain factors compared to service sector industries.

a. Environmental

Through their production and output activities, companies can cause negative externalities through pollution and the depletion of natural resources with associated detrimental impacts on ecosystems, the climate, and human health, among others. Environmental factors comprise measures to protect and minimize the risks to the environment and efforts to conserve resources. Examples include reducing greenhouse gas emissions, complying with government regulations on pollution, and conserving and managing resources through water and waste management and energy-saving practices.

b. Social

The social scope of ESG relates to the positive impacts and opportunities that a company may provide for society as well as the management of any social risks. These factors can apply generally to society, affecting how companies use their corporate influence to benefit society and how society in return views the company and its reputation. They may also apply more specifically to social aspects within a company, such as the relations between the company and its workers and the implementation of safe working practices and standards, with impacts on company values. Some main examples of social ESG factors include social and policy impact evaluation, health and safety measures, and employee relations.

c. Governance

Governance factors are related to the structure and management practices of companies and can also be viewed as a commitment to business ethics and proper business conduct. Companies can attract long-term investment by showing their willingness to align with the interests of shareholders and management. Examples of governance factors include transparency measures and corporate governance.

B. WHY ESG?

Entrepreneurs have strong incentives for considering ESG investment in their core business strategies. Yet, many are unclear about how ESG factors relate to business performance and the associated benefits. The main draw of ESG is that ESG factors can benefit both companies and society simultaneously and as a whole – that is, ESG is well-aligned with business incentives.

1. ESG drivers

Several contributing factors have driven the rise in interest in ESG. ESG now plays a large role in mainstream investment, reflecting the origin of the concept of ESG from the financial market, and investors are increasingly demanding ESG-related indicators from companies.

- Investors are increasingly preferring long-term investment. This is because short-term investment is often associated with higher risks. Long-term investment decisions benefit from investors having more information about companies, and ESG can comprise a large part of this information. Investments now take place on a global scale, and helping investors to be more educated and aware of companies' operating practices, reputation, and commitments can play a vital role in forming an assessment of a company, regardless of where it is located geographically.
- ESG can provide an insight into the intangible assets of a company. Evaluating the expected performance of a company goes beyond simply assessing its financial assets. Investors should rely on an overall evaluation of a company to determine its market value. Aspects such as a company's efforts to invest in human capital through training for employees, its cooperation with product standards and safety regulations, and its reputation for fair working practices – among many of the other previously mentioned ESG factors – can provide measures for establishing the viability of an investment decision in a more comprehensive manner.

Progressing beyond only financial investors, importantly, entrepreneurs, governments, the media, and the general public, have also been strong supporters of ESG, fuelling its rapid growth. Growing demand from environmentally and socially conscious consumers and business clients around the world has spurred companies to be more accountable for their working practices and the impacts of their activities on society and the environment. As a result, companies are placing greater focus on ESG factors and indicators and enhancing transparency and reporting to demonstrate their commitments and remain competitive with other companies.

2. Can ESG lead to outperformance?

While awareness of the benefits of ESG investment is becoming increasingly widespread, many entrepreneurs remain unclear of the relationship between ESG and financial performance or how they can include ESG into their core business strategies. This may lead to some doubts about whether ESG can actually raise profits and lead to "outperformance" for companies. However, as discussed, ESG investment does not result in a trade-off with profit for companies. It is in line with business incentives and is value-creating for firms. ESG can, therefore, lead to outperformance through a variety of mechanisms.

- ESG investment is associated with greater profitability, as ESG investment helps firms lower costs and boost revenues and profits. An important finding of this report shows that ESG firms' profitability is, on average, higher than that of non-ESG firms (Chapter III). It is highly unlikely that ESG factors have a detrimental effect on the financial performance of firms. The reason is that measures to boost ESG performance generally do not oppose or hinder the profit-generating activities of companies. In other words, ESG performance goes hand in hand with financial performance, meaning there is no trade-off between the objectives so company strategies do not have to choose between them. ESG factors do not have to be promoted by sacrificing profit, but they instead add value for companies, leading to a win-win situation. Companies and investors, as well as society as a whole and the government, serve to gain from an emphasis on ESG performance.
- ESG factors directly and indirectly contribute to increasing the sustainability of companies and can enable firms to outperform their rivals. Firms that do not realize the potential gains from incorporating ESG investment into their business strategies fail to consider the signalled benefits to business performance as well as the governance, societal, corporate, and other beneficial attributes.
- ESG is linked to lower volatility in company performance as ESG factors can lead to better risk management through increased brand awareness and, hence, decreased reputational risk and volatility. Meanwhile, non-financial indicators, such as information on management practices, allow investors to form more complete risk assessments that would not otherwise be possible through financial information alone. This medium-to-long-term stability is important for firms when considering risk management, and investors tend to be adverse to investing in companies with poor sustainability as it can signal weak working practices and low engagement with communities and society.
- ESG can help to build and encourage collaboration within companies. This may be brought about through working collectively towards ESG-led goals, which often requires cross-functional cooperation. ESG factors can also directly enhance collaboration through increased productivity and efficiency from better management and improved staff retention and employee satisfaction, among others. Chapter III provides more details and concrete examples of ESG initiatives that show how ESG investment raises operational productivity and efficiency.

C. ESG FOR WHOM?

Since ESG investment is originally from the financial market, it is commonly perceived that ESG investment is only for financial investors. However, ESG factors should be a priority for all forms of investors, including investors in the real sector or enterprises.

ESG is not only important as a signal to investors, but, as it is conducive to business objectives, consideration of ESG factors and the incorporation of ESG-related objectives into company strategies can help firms add value as an indicator of a company's long-term commitments and through the opportunity of allowing them to differentiate themselves from rival companies. As such, ESG can be crucial for maximizing profit for all companies.

ESG can even help new companies and micro, small, and medium-sized enterprises enhance their productivity and competitiveness by giving them a valuable boost to their reputation. Therefore, all companies, regardless of their size or whether they are listed on a stock market, should integrate ESG investment in their core business strategies and consider ESG investment as an essential part of their growth strategies.

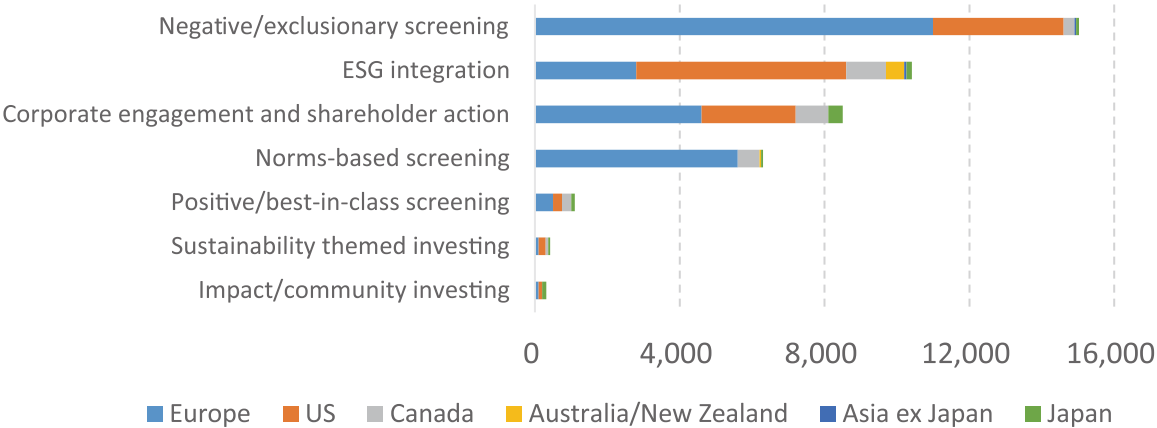
CHAPTER II

ESG INVESTMENT TRENDS AND PROSPECTS

A. TRENDS AND PROSPECTS

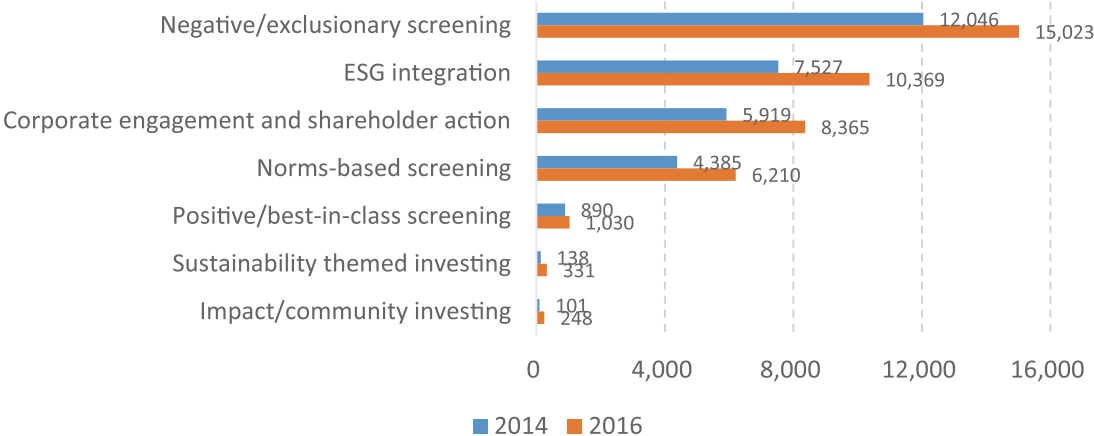
In recent decades, ESG has gained global momentum and is now regarded as one of the fastest growing investment areas in the world (Figures II.1 and II.2). Behind this rapid growth has been the knowledge that ESG factors can increase the financial performance of companies, in contrast with previous attitudes related to environmental issues and sustainability that improvements in intangible, environmental, or sustainable performance could only be achieved by sacrificing financial gain and profit.

Figure II.1. | SRI assets by strategy and region (\$ billion)



Source: Global Sustainable Investment Alliance (GSIA) (2016).

Figure II.2. | Growth of strategies, 2014–2016 (\$ billion)



Source: GSIA (2016).

As shown in Figure II.1, the largest sustainable investment strategy globally is negative/exclusionary screening (\$15 trillion), followed by ESG integration (\$10.37 trillion). ESG integration is the primary sustainable investment strategy in the United States (US), Canada, Australia/New Zealand, and Asia excluding Japan, while corporate engagement and shareholder action is the largest investment strategy in Japan. ESG integration continued to grow between 2014 and 2016 (Figure II.2). The annual growth

rate of ESG integration was approximately 12%, to which Europe and the US were the largest contributors. In Asia, including Japan, ESG integration investment strategies are still in their early stages, with high potential for growth in the coming years. This trend is apparent in Table II.1, which shows the impressive growth rates of SRI assets for Asia (excluding Japan) and Japan at 16% and 6,690% [67 times larger], respectively, during the period 2014–2016.

Table II.1. | Growth of SRI assets by region, 2014–2016

Country/Region	SRI assets in 2014 (\$ billion)	SRI assets in 2016 (\$ billion)	Growth over period (%)	Compound annual growth rate (%)
Europe	10,775	12,040	11.7	5.7
US	6,572	8,723	32.7	15.2
Canada	729	1,086	49.0	22.0
Australia/New Zealand	148	516	247.5	86.4
Asia excluding Japan	45	52	15.7	7.6
Japan	7	474	6,689.6	724.0
Total	18,276	22,890	25.2	11.9

Source: GSIA (2016).

According to the Global Sustainable Investment Alliance (GSIA) (2016), Malaysia is the largest market (30%) for sustainable investing in Asia excluding Japan and among ASEAN Member States. However, during 2012–2014, Singapore and Indonesia experienced the fastest growth of sustainable investing in ASEAN, and Singapore is considered as a centre for technology and sustainable investment products while Indonesia is positioned as a hub of Islamic funds (GSIA, 2016).

B. CURRENT INITIATIVES AND THE POLICY LANDSCAPE

1. Global context

ESG has also received strong support from governments and international organizations, such as the United Nations (UN), and many ESG-related aspects are emphasized in the Sustainable Development Goals (SDGs), which similarly promote inclusive and sustainable economic growth and sustainable consumption and production patterns. A plethora of ESG-related initiatives has arisen in recent years to promote awareness and actions covering a range of thematic areas across countries and regions and targeting all levels of stakeholders. Table II.2 lists some of the currently active initiatives that incorporate ESG-related elements.

There are also several standalone initiatives that are working to increase knowledge of ESG and the sharing of the importance of ESG factors for investment. Some of the main initiatives are introduced below.

Table II.2. | Key global initiatives covering elements of ESG investment

Organization/Country	Initiative
United nations	UN-supported Principles for Responsible Investment
	UN Environment Programme
	UN Framework Convention on Climate Change
	UN Green Climate Fund
	UN Global Compact
	Principles for Responsible Agricultural Investment ^a
G20	G20 Green Finance Study Group
	Global Infrastructure Hub
OECD	High-Level Principles on Long-Term Investment
	Work stream on Governance and Fiduciary Duty
Financial Stability Board (FSB)	Task Force on Climate-Related Financial Risks
European Union	EU Energy Union
	EU Capital Markets Union
	European Fund for Strategic Investments
	EU Non-Financial Reporting Directive
	ESG and Fiduciary Duty initiatives
	Product disclosure initiatives
Belgium	Vandenbroucke Law (2003)
	Laws against financing of landmines and cluster munitions (2007)
Denmark	Amendment to the Danish Financial Statements Act
France	Grenelle law II, Articles 224 and 225
	Energy Transitions for Green Growth Law, Article 173
Germany	The Renewable Energy Act
	Amendment in regulations concerning pensions funds
Italy	Mandatory disclosure of ESG for pension funds
	New measure on pension funds' investment policy
Netherlands	Green Investment Directive
Norway	Norwegian Act on Annual Accounting
Spain	Sustainable Economy Law – Mandatory disclosure of ESG
	Law modernizing Spain's Social Security System
Sweden	Mandatory Disclosure of ESG for pension funds
	Public Pension Funds Act
United Kingdom	Amendments to 1995 Pensions Act: Pension disclosure regulation
Hong Kong, China	Social Innovation and Entrepreneurship Development Fund
India	Indian Ministry of Corporate Affairs' new Corporate and Social Responsibility Policy under the Companies Act 2013
Indonesia	National Centre for Sustainability Reporting
Japan	Principles for Financial Action for the 21 st Century
Malaysia	Business Sustainability Program
Philippines	National Renewable Energy Programme 2011–2013
Singapore	Sustainable Singapore Blueprint
Thailand	Feed-in premium programme
Viet Nam	Climate Investment Funds' Clean Technology Fund

^a Jointly developed by the United Nations Conference on Trade and Development, the Food and Agriculture Organization of the United Nations, the International Fund for Agricultural Development and the World Bank.

Source: AJC's compilation.

Principles for Responsible Investment

The Principles for Responsible Investment (PRI) aim to promote responsible investment mainly among institutional investors by increasing understanding of how ESG can be applied to investment. They were launched in 2006 in partnership with the UN and is an investor-sponsored initiative. The PRI advocates the benefits of enhanced returns and minimized risks from responsible investment through a set of six principles as follows: ¹

1. To incorporate ESG issues into investment analysis and decision-making processes;
2. To be active owners and incorporate ESG issues into ownership policies and practices;
3. To seek appropriate disclosure on ESG issues by entities;
4. To promote the acceptance and implementation of the principles within the investment industry;
5. To work to enhance the effectiveness of implementing the principles; and
6. To report on the activities and progress towards implementing the principles.

The initiative works to increase awareness of the importance of ESG issues and has received over 1,500 signatories and widespread acceptance by market participants. As of December 2016, the combined value of the assets managed by the signatories exceeded \$60 trillion.

Global Reporting Initiative

The Global Reporting Initiative (GRI) is an independent organization founded in 1997 and based in Amsterdam, the Netherlands, that works to increase awareness and understanding of sustainability through effective communication and reporting on issues such as climate change and governance. The initiative's Sustainability Reporting Standards comprise widely used global standards for sustainability reporting and include over 400 indicators of corporate sustainability performance.

The GRI has four priority areas: (i) to be a leader in creating standards and guidelines for sustainable development; (ii) to harmonize the sustainability field by providing the GRI as a central hub for sustainability-related frameworks and engaging in collaborative and partnership opportunities; (iii) to lead efficient and effective sustainability reporting and enhance and streamline the reporting process; and (iv) to encourage the use of sustainability information for boosting performance and transparency.

Sustainable Stock Exchanges Initiative

The Sustainable Stock Exchanges (SSE) Initiative was launched in 2009 and is a UN Partnership Programme of the United Nations Conference on Trade and Development, the UN Global Compact, the United Nations Environment Programme Finance Initiative, and the PRI. Its goal is to work with stock exchanges, market regulators, and companies to improve ESG performance and further sustainable investment through three pillars of activity: research, consensus building, and technical assistance.

¹ Adapted from *Principles for Responsible Investment (PRI)* (<https://www.unpri.org/about-the-pri>).

Table II.3. | Sustainable Stock Exchanges initiative, 2018

Country	Stock exchange	Number of listed companies	Market capitalization (\$ million)	SSE Partner Exchange	Has annual sustainability report	Requires ESG reporting as a listing rule	Has written guidance on ESG reporting	Offers ESG-related training	Has sustainability-related indices
ASEAN									
Indonesia	Indonesia Stock Exchange	566	520,687	No	No	Yes	No	No	Yes
Malaysia	Bursa Malaysia	904	455,773	Yes	Yes	Yes	Yes	Yes	Yes
Philippines	Philippine Stock Exchange	267	290,339	No	Yes	No	No	Yes	No
Singapore	Singapore Exchange	749	1,100,000	Yes	Yes	Yes	Yes	Yes	Yes
Thailand	Stock Exchange of Thailand	688	595,373	Yes	Yes	Yes	Yes	Yes	Yes
Viet Nam	Ho Chi Minh Stock Exchange	344	116,657	Yes	Yes	Yes	Yes	Yes	Yes
Viet Nam	Hanoi Stock Exchange	384	9,845	Yes	No	Yes	Yes	Yes	No
Selected economies									
Australia	Australia Securities Exchange	2,275	1,507,050	Yes	No	No	Yes	No	No
China	Shanghai Stock Exchange	1,403	5,568,909	Yes	Yes	No	Yes	Yes	Yes
China	Shenzhen Stock Exchange	2,097	3,720,594	Yes	No	No	Yes	Yes	Yes
Hong Kong, China	Hong Kong Exchanges and Clearing	2,186	4,443,082	Yes	Yes	Yes	Yes	Yes	Yes
India	National Stock Exchange of India	1,878	2,379,901	Yes	Yes	Yes	Yes	Yes	Yes
India	Bombay Stock Exchange	5,616	2,373,884	Yes	Yes	Yes	Yes	Yes	Yes
Japan	Japan Exchange Group	3,604	6,222,825	Yes	Yes	No	No	Yes	Yes
Korea, Rep. of	Korea Exchange	2,138	1,869,629	Yes	No	No	No	No	Yes
New Zealand	New Zealand Stock Exchange	176	98,685	Yes	No	No	Yes	No	No
United States	Nasdaq Stock Exchange	2,957	10,823,350	Yes	Yes	No	No	No	No
United States	New York Stock Exchange	2,291	22,081,367	Yes	Yes	No	No	Yes	Yes

Note: For more details, see <http://www.sseinitiative.org/>.

Source: AJC's compilation based on Sustainable Stock Exchanges Initiative's database, 2019.

The initiative includes the majority of exchanges worldwide and provides a platform for collaboration, the sharing of information, and support among all stakeholders. As a UN-partnered initiative, it works to contribute to four of the SDGs: goal 5, gender equality; goal 8, decent work and economic growth; goal 12, responsible consumption and production; and goal 13, climate action. It focuses on areas that are of particular importance for stock exchanges – including guiding and

encouraging companies to implement ESG reporting and promoting green finance, gender quality, and small and medium-sized enterprise growth – and takes a variety of measures, such as publishing sets of guidelines and action plans and producing indicator recommendations. Table II.3 shows the prevalence of ESG issues in the financial markets of selected ASEAN and non-ASEAN economies. While ESG mechanisms have not been adopted across the board, the stock exchanges of several ASEAN Member States require ESG reporting as a listing requirement, offer guidance on ESG reporting, and offer ESG training, among other measures. These initiatives indicate a growing trend and progressive support for ESG among exchanges in ASEAN economies, whereas several non-ASEAN economies, including Australia, the Republic of Korea, and New Zealand, are yet to implement many of these measures.

2. Japan context ²

ESG has, and will continue to have, an important role in the interactions in Japan's capital markets. The Japanese Stewardship Code was established in 2014 by the Financial Services Agency to help companies achieve sustainable growth through investment and dialogue. It provides an important example of the possible relationship between ESG factors and long-term value creation. The code aims to guide institutional investors on factors relating to the medium- and long-term evaluation of companies, such as through the consideration of a company's management strategies and operating policies. It refers to risk monitoring through the consideration of risks related to environmental and social matters.

Meanwhile, Japan's Ministry of Economy, Trade and Industry published the Ito Review also in 2014. The document stresses that in addition to financial information, investors should focus on non-financial factors, such as ESG issues, and connect these with costs and investment returns. It highlights the need to incorporate the level of trust of stakeholders into corporate valuations and evaluations of company performance.

In addition to the Stewardship Code, the Corporate Governance Code was released in 2015, signalling Japan's active support for the value of ESG performance indicators for investors. The Governance Code states that companies should aim for maximum transparency and go beyond the legally required reporting and compliance requirements for both financial and non-financial information. This encompasses ESG issues, such as reporting on governance mechanism, risks, and strategies.

Following these developments, the Government Pension Investment Fund signed the PRI, and the Working Group on Incorporating Issues Regarding Sustainability into Investment (known as the ESG Working Group) was also established. The ESG Working Group produces guidelines for promoting ESG investment and organizes meetings and symposiums, among other activities, to increase awareness and dialogue on ESG matters.

² For more details, see the *ESG Working Group Report by the Ministry of Environment, Japan (2017)*.

3. ASEAN context

ESG development and sustainability disclosure in ASEAN

The ASEAN Member States each have varying levels of ESG investment development and policy implementation. While awareness of ESG has been increasing substantially in recent years, there is still much progress to be made in moving beyond awareness-building to the practical development and implementation of ESG frameworks.

ESG disclosure and transparency has been improving in the region. This is more apparent in Member States where changes in policies, regulation, and guidelines have been actively promoted and driven by stakeholders in the private and public sectors, such as civil society or government-led initiatives. Examples include non-governmental organizations and professional organizations in Indonesia, such as the National Centre for Sustainability Reporting, which are working to highlight the importance of disclosure for ESG investors. Meanwhile, Malaysia's Business Sustainability Program encourages and educates companies to incorporate sustainability into their business strategies.

The business incentives have also prompted companies to make strategic choices to explore ESG-related disclosure. The growing market for sustainable investment means that increasing transparency and reporting can provide companies with an entry point into the market and give them a competitive edge over their rivals, signalling to investors a company's commitment to innovative and profit-enhancing business decisions and development.

Both governments and the private sector can enhance ESG development:

- **Government:** At the government level, targeted policies and regulations on ESG are still lacking. In this respect, further national measures are key for unlocking the potential of firms in the ASEAN region by accelerating the uptake of support for ESG investment.
- **Private Sector:** Until now, ESG investment has mostly been carried out in the financial sector and financial markets. Stock exchanges have been the drivers behind this, helping to raise awareness among larger enterprises. This has had the benefit of establishing a trend and standards within the industry and can also have positive spillover effects for micro, small, and medium-sized enterprises (MSMEs) across all industries.

There has been a strong and sustained progression by ASEAN stock exchanges in their global rankings for disclosure (see Table II.4). The Stock Exchange of Thailand (SET) rose from 40th place in 2013 to 10th in 2017, marking a continual year-on-year progression. Behind this strong performance has been increasing disclosure rates, growth, and timeliness among large Thai firms, encouraged by the voluntary reporting guidelines published by the stock exchange in 2012 and the subsequent mandatory requirements issued by the securities regulator in 2014.

Table II.4. | Sustainability disclosure rankings of stock exchanges in ASEAN and selected economies

Ranking					Exchange name	Score (%)			
2013	2014	2015	2016	2017		Disclosure	Disclosure growth	Timeliness	Overall
40	27	17	13	10	SET	73.8	62.5	69.0	70.1
24	23	19	17	15	Bursa Malaysia	51.1	62.6	80.9	62.4
18	22	15	18	16	SGX	53.1	53.9	78.5	60.9
37	38	31	34	25	IDX	39.3	34.4	66.6	46.5
26	18	14	15	27	SSE	25.8	35.3	85.7	45.7
39	33	28	32	29	PSE	43.9	33.9	42.8	41.6
16	31	35	-	32	KRX	42.8	27.9	45.2	40.5
3	12	21	28	36	TSE	53.6	33.3	19.0	39.2
38	26	20	43	37	SZSE	20.2	15.5	83.3	38.2
-	-	-	-	53	HOSE	12.1	3.6	-	9.6

Note: The 2017 ranking covers 55 economies in total.

Source: Adapted by AJC from Corporate Knights (2017).

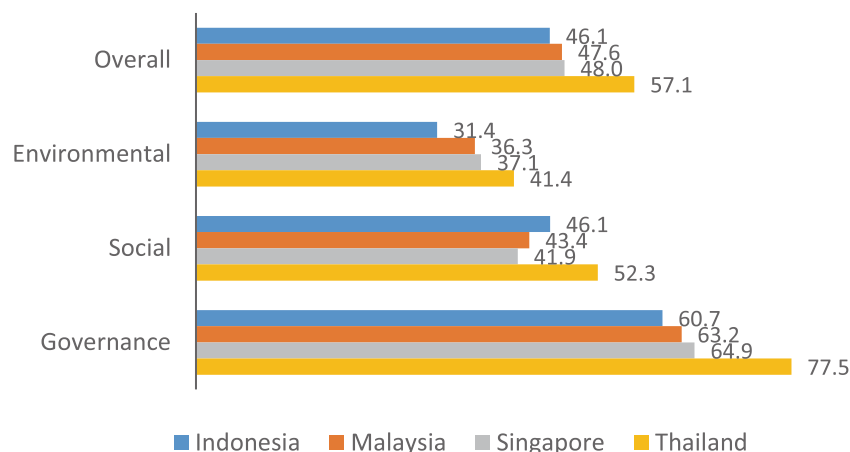
Responsible investment is gaining ground in Asia, and the region's vulnerability to environment and climate change-related risks has spurred interest and uptake in ESG investing. This is evident from Table II.5, which compares ESG milestones among some of the ASEAN Member States. The stock exchanges have largely been successful in offering ESG-related training, but Indonesia and the Philippines have yet to introduce mandatory ESG reporting or publish written guidance on ESG reporting. Many countries have developed sustainability indices, although there remains room for further improvement in this area. Meanwhile, Figure II.3 shows that governance-related disclosure is the most comprehensive form of ESG reporting, while the social and environment aspects are lagging in terms of disclosure quality. The following section will discuss the state of ESG and disclosure in more detail for the individual Member States.

Table II.5. | ASEAN's sustainability landscape

Country	Stock exchange	Requires ESG reporting	Written guidance on ESG reporting	ESG-related training	Sustainability-related indices
Brunei Darussalam	-	No	No	No	No
Cambodia	CSX	No	No	No	No
Indonesia	IDX	Yes	No	No	Yes
Lao PDR	LSX	No	No	No	No
Malaysia	BURSA	Yes	Yes	Yes	Yes
Myanmar	YSX	No	No	No	No
Philippines	PSE	No	No	Yes	No
Singapore	SGX	Yes	Yes	Yes	Yes
Thailand	SET	Yes	Yes	Yes	Yes
Viet Nam	HOSE	Yes	Yes	Yes	Yes
Viet Nam	HNX	Yes	Yes	Yes	No

Source: AJC's compilation.

Figure II.3. | Overall quality of disclosure



Source: Adapted by AJC from ASEAN CSR Network and NUS Business School (2016).

Current State of ESG and Reporting in ASEAN Member States

In **Brunei Darussalam**, awareness of ESG is still in its early stages, and there are currently no independent non-governmental organizations in the country promoting ESG-related monitoring or practices. However, some of Brunei’s laws have focused on labour-related issues that are conducive with some ESG factors and reporting. The country has also enacted laws for wildlife protection, which similarly signals Brunei’s efforts in line with the environmental aspect of ESG. Due to the country’s limited ESG commitments, estimates by the Business Environment Council (2015) suggest that the government is not likely to issue ESG reporting requirements in the medium term.

Indonesia is among the least active of the ASEAN-6 members on ESG issues. However, the country is a hub for Islamic funds, demonstrating the fast-growing demand for sustainable investment in ASEAN. Indonesia also has strong potential gains from increased ESG awareness due to its high vulnerability to natural disasters and climate change. The country does, however, face many ESG challenges. On the environmental aspect, these include the challenges of pollution, environmental degradation, and resource conservation. The social challenges include unemployment, income inequality, health and safety issues, and discrimination, while the governance challenges include corporate transparency, risk and volatility, and corruption.

The Government of Indonesia has taken steps to improve ESG disclosure by requiring all listed companies to include in their annual reports information on their implementation of social and environmental responsibilities. The market regulator also requires such companies to report on their corporate social responsibility (CSR).

The country has introduced several regulations related to ESG, including labour laws related to labour inspections and occupational safety, regulations that require state-owned enterprises to report on their partnership and community developments, and legislation requiring enterprises to report on their environment-related developments.

There have also been efforts to promote and recognize companies with a strong focus on sustainable development in the private sector in the form of an index created by the Indonesia Stock Exchange and KEHATI (an Indonesian biodiversity foundation), which scores companies based on their CSR efforts.

The Lao People's Democratic Republic (Lao PDR) is regarded as one of the most active countries among non-ASEAN-5 countries in terms of the promotion of responsible investment, especially in the agricultural sector. The country's Ministry of Planning and Investment has undertaken a Quality Investment Promotion initiative to help promote environmental and social responsibilities among investors. Firms such as Lao Tobacco Limited, Stora Enso Lao PDR, and the Lao Banana Company have focused on the "S" element of ESG, aiming to contribute to community development and maintain good relationships with their workers.³

There are currently no CSR, ESG, or sustainability policies in the Lao PDR relating to disclosure. Going forward, the government will need to play a key role in this regard to implement and encourage such measures and increase targeted coordination in the country.

Malaysia has continually shown strong ESG progress, and its listed companies rank among the highest in the ASEAN Corporate Governance Scorecard Country Report and Assessments. Going forward, the country is expected to further develop its corporate governance disclosure and ESG frameworks through the Securities Commission's Corporate Governance Blueprint.

Bursa Malaysia, the country's stock exchange, has been a strong proponent of sustainability and ESG for long-term value creation. It requires CSR disclosures from its listed companies. Companies must comply by detailing their CSR activities in their annual reports or otherwise explain why they did not engage in such activities. ESG disclosure requirements are similarly imposed in the country's Main Market Listing Requirements and the Malaysian Code on Corporate Governance. Together with FTSE, Bursa Malaysia launched the FTSE4Good Bursa Malaysia in 2014. This is an ESG index that aims to highlight companies with strong ESG performance, help investors with their investment-related decisions, promote sustainability, and encourage efficient and transparent ESG reporting. The index comprises the top 200 companies based on defined and transparent ESG criteria.

Other initiatives to enhance ESG include the introduction of the Sustainable and Responsible Investment Sukuk framework in 2014 and the Environmental Quality Act, which provides a framework on environmental emissions and pollution.

Myanmar currently has no obligatory CSR initiatives, and disclosure by companies is still voluntary. The country has some environment-related legislation in the form of the Myanmar Forest Policy, which focuses on the sustainable use and development of forests, and the Environmental Conservation

³ For more details see ASEAN Secretariat (2017).

Law relating to environmental quality standards. Myanmar still has much potential for significant ESG development, but it is hoped that sustainability and CSR practices will continue to grow significantly, likely in the medium term.

The Philippines is likely the least active of the ASEAN-6 members. Corporate governance has improved in the decades since the Asian financial crisis, but there is still much progress to be made. The country's Institute of Corporate Directors was set up in 1999 to increase the standard of corporate governance in the country. Its corporate governance health checks allow companies to compare their governance practices to those recommended in the ASEAN Corporate Governance Scorecard, but only 5% of publicly listed companies undergo these checks. This highlights the need for companies in the Philippines to go beyond the national legislative requirements and work on their ESG performance to increase transparent communications with their stakeholders. There is also much room for improvement in sectors such as household goods, mining, and transportation, which face the significant challenges of corruption and bribery, poor labour conditions, and environmental risks.

The Philippines Stock Exchange requires listed companies to report on their governance aspects of sustainability, although there are no requirements pertaining to the "E" or "S" elements of ESG. The country's Corporate Social Responsibility Act is intended to make companies take responsibility for and disclose their CSR-related activities. However, in many cases, companies have avoided fully incorporating CSR into their company management strategies.

Legislation such as the Clean Water Act and Clean Air Act has promoted environmental change and increased responsibilities for companies, while the Philippine Securities and Exchange Commission has encouraged ESG disclosure and reporting on environmental factors in addition to activities related to corporate governance. Further disclosure requirements may be introduced in the medium term.

Singapore places a strong emphasis on sustainable investment and has aimed to be a source of growth in ASEAN. The Singapore Stock Exchange encourages its listed companies to enhance their sustainability through two initiatives. First, it requires all listed companies to publish sustainability reports on their ESG performance at least annually on a "comply or explain" basis. These reports are intended to allow investors to make more informed investment decisions and supplement the traditional reports that consisted only of financial performance. Second, the stock exchange has launched four sustainability indices. The indices are in response to increasing demand for measurements of ESG factors amid climate change, labour, and governance issues, and the indices give investors the ability to identify which companies lead in ESG performance.

Meanwhile, the country has several detailed regulations and legislation on ESG issues that have strong potential for the further development of ESG. Examples include the Energy Conservation Act, which pushes large operators to report on energy use conservation and submit reports to the

government on energy management. Similarly, the Environmental Public Health Act requires the reporting of waste data and waste reduction plans by large companies, while the Employment Act and Workplace Safety and Health Act include regulations on social and labour aspects.

For future progress, companies should continue to report on their ESG activities following the Ministry of the Environment and Water Resources' Sustainable Singapore Blueprint.

Thailand has emerged as one of the forerunners of ESG in ASEAN, and Thai companies comprise the highest share among ASEAN members in the Dow Jones Sustainability Indices. The country has among the highest levels of ESG disclosure in ASEAN and is another of the ASEAN Member States that has implemented mandatory reporting requirements. The SET requires annual reporting on ESG disclosure by its listed companies. The SET also established the Corporate Social Responsibility Institute in 2007, signalling increasing awareness of CSR and ESG. Meanwhile, regulations related to specific ESG elements include the Occupational Safety, Health and Environment Act, the Enhancement and Conservation of National Environmental Quality Act, and the Environmental Quality Standard.

For Thailand's future trends, more listed Thai companies are being chosen for inclusion in the Dow Jones Sustainability Indices, confirming the high performance of companies in the country. Furthermore, the SET is working towards producing a sustainability index for ESG reporting.

Viet Nam is broadly committed to promoting ESG, and it engages in a range of ESG initiatives at its stock exchanges in Ho Chi Minh and Ha Noi (see Table II.3). The two stock exchanges encompass more than 700 listed companies. The Ho Chi Minh Stock Exchange, in particular, has comprehensive measures to promote ESG measures and factors. These include the use of annual sustainability reports and requiring reporting as a rule for ensuring company accountability. The exchange also supports companies by providing training on ESG-related issues, written guidance on reporting, and indices for the monitoring of progress, targets, and achievements.

On related legislation and regulations, Viet Nam issued a circular in 2015 requiring listed companies to report on their impacts on society and the environment. Meanwhile, the Environmental Protection Law relates to environmental factors, such as environmental protection, environmental impact and climate change assessments, and resource conservation. In addition, the Labour Code aims to protect workers through legislation on working hours, workers' rights, health and safety, and minimum wages.

Viet Nam shows good future potential, and the introduction of the Sustainability Reporting Awards in the country is a positive sign of increasing awareness and priority on ESG issues. Further disclosure requirements can be expected in the medium term.

CHAPTER III

ESG INVESTMENT PERFORMANCE IN ASEAN ENTERPRISES

A. SURVEY

1. About the research

ESG investment has gained momentum around the world, and the trend is moving towards Asia, especially in ASEAN countries. However, little is known about the link between investment and firms' economic or real performance. This is because previous studies have tended to focus on (i) the negative impacts on company activities due to the negligence of ESG issues; (ii) ESG investment helping companies avoid the realization of certain risks; (iii) the positive impact of ESG investment on firms' financial performance; and (iv) the positive externalities of ESG investment. There have not been any studies that show a direct impact of ESG investment on firms' economic performance, including costs, revenues, and profits.

Against this backdrop, in 2018, AJC conducted a regional survey of ASEAN firms on ESG investment to show the direct impact of ESG investment on firms' economic performance. Based on a purposive sampling method,⁴ the survey included 143 firms from 10 ASEAN Member States (Figure III.1). The sample was selected from the firms listed in the Forbes Global 2000 and Nikkei Asia 300 in 2017 and 2018. For the countries that did not appear in either list, i.e., Brunei Darussalam, Cambodia, Myanmar, and the Lao PDR, AJC requested those countries' government officials to provide a list of the top-performing firms. The motivation underlying the purposive sampling was to capture firms that have high possibilities of practising ESG investment while reflecting the real situation of ESG investment in ASEAN. The sampling is based on the assumption that being on either list implies that the firms have been performing well and might be more sustainable than those firms that were not listed.

The sample for this report includes commercial enterprises from various sectors: construction; energy; food, beverages, and tobacco; health care; hotels, restaurants, and leisure; industrial conglomerates; industrial machinery and materials; media and telecommunications; retail and trading; and transportation. The sample is well distributed (Figure III.2); therefore, it is representative of a broad picture of investment in the ASEAN regional economy. To focus on real investment rather than financial investment, the sample excludes the financial sector, e.g., banks, investment funds, insurance companies, and real estate.

The survey was conducted by reviewing multiple years of each firm's annual reports and sustainability reports (where available). The survey explored firms' awareness of ESG investment and ESG adoption. It sought to gain insights into their strategic approach, practical ESG investment, performance measures, and challenges.

However, there are some caveats when interpreting the findings (Box III.1).

⁴ A purposive sampling method selects only the samples that are best suited for the purpose of the study. In the survey of this report, it is assumed that companies with high performance have a higher possibility of adopting ESG investment as the concept of ESG investment is relatively new. Therefore, the survey focuses on companies that are listed in the Forbes Global 2000 and Nikkei Asia 300.

Box III.1. | Methodology

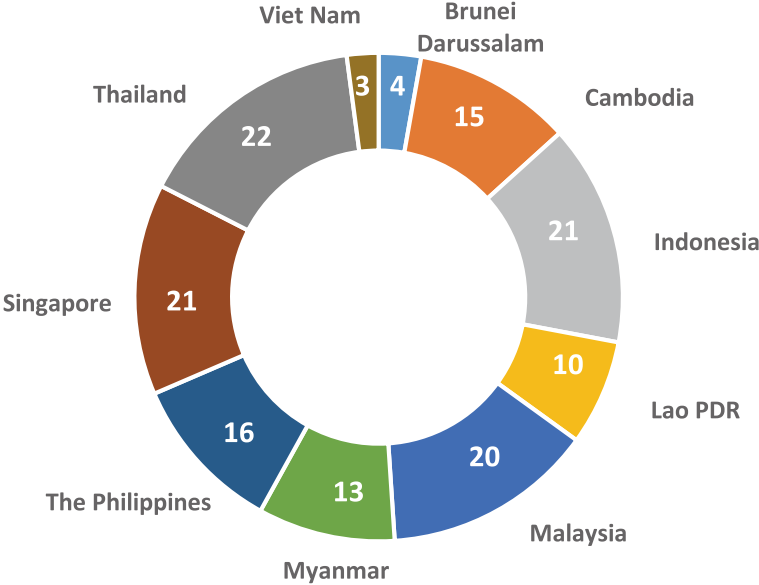
To measure the economic performance, the net profit margin (hereafter, profit margin or profitability) is calculated from the net profit divided by total revenue. As ESG investment is not a one-shot investment but a continuous process, the net profit margin is averaged over time and across companies to obtain the average profit margins of both ESG and non-ESG companies. The profitability is not the level of profits but the ratio, so that it can be compared across all firms regardless of their size. The period coverage depends on each company's year of engagement in sustainability and ESG initiatives. The longest coverage is 18 years, while the average coverage is approximately 5.3 years.

There are some data and research limitations. Firstly, due to data limitations, the net profit margins before and after implementing ESG investment over a time span cannot be obtained. As the concept of ESG is relatively new, especially among ASEAN companies, most ESG companies only adopted ESG investment in 2017 or 2018 (Figure III.8). As a result, there are insufficient data points for profitability after implementing ESG investment to compare with those of profitability before implementation. It is, therefore, statistically inappropriate to make such a comparison with the current ESG data. This problem is systematic to all ESG data on ASEAN firms.

Secondly, no causal relationship between profitability and ESG investment was established in our findings, and reverse causality might be possible. The issue of a causal relationship is also related to the data limitation problem as there are insufficient data points for profitability after implementing ESG investment. Although the findings do not imply causality, the tendency for the association between ESG investment and profitability over time can be observed. Moreover, "best practices" are provided to show the possible mechanisms behind the link between ESG investment and profitability and to support the findings.

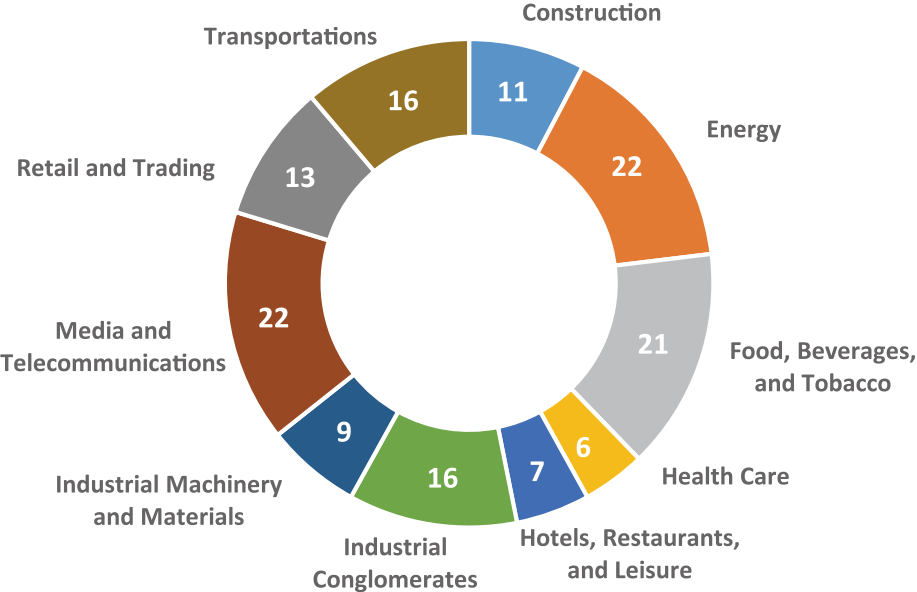
Regarding reverse causality, it might be argued that ESG investment does not increase firms' profits, but that firms that already have higher profits tend to become involved in ESG investment. In other words, richer firms would have more resources to implement ESG initiatives. Nevertheless, this argument does not apply to the analysis based on firms' profitability or profit margins. Firms with higher profitability can be smaller than firms with lower profitability in terms of the value of profits or assets. Hence, it is difficult to argue that greater profitability would lead to a larger volume of ESG investment or more integrated ESG investment.

Figure III.1. | Sample composition by country (number of companies)



Source: AJC's compilation.

Figure III.2. | Sample composition by sector (number of companies)



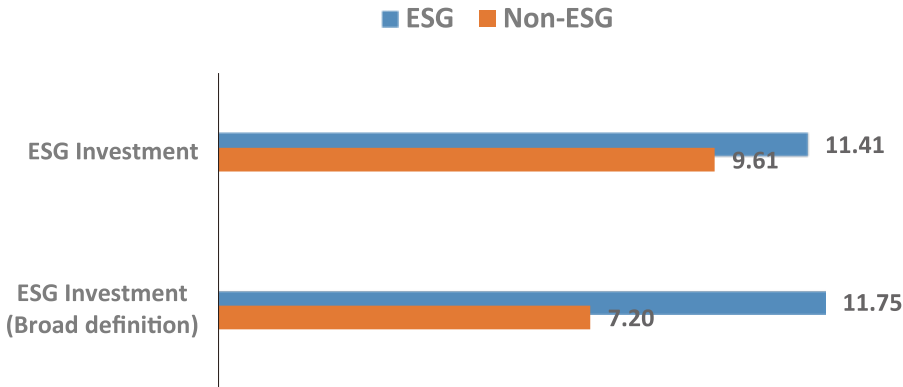
Source: AJC's compilation.

2. Key findings

ESG investment is associated with greater profitability

ESG investment helps firms increase profitability through two mechanisms, namely cost reduction and revenue generation. This will be comprehensively discussed in the next section on best practices. The average net profit margin of ESG companies in the sample is higher than that of non-ESG companies (Figure III.3). The ESG companies comprise companies that have either incorporated ESG aspects in their business strategies or have a section on ESG investment in their annual reports, sustainability reports, or homepages. The average ESG company profit margin is 11.41%, whereas the value for non-ESG companies is 9.61%. This is consistent with the general concept that ESG investment prevents risks associated with environmental, social, and governance issues and, in turn, promotes a consistent stream of income growth. On the other hand, non-ESG companies face higher risks; therefore, the growth of their income streams may fluctuate over time. This may result in lower profitability than ESG companies. With a broader definition of ESG investment, the average profit margin is 11.75% for ESG companies and 7.20% for non-ESG companies. This broader definition of ESG investment includes (i) ESG companies and (ii) companies that report activities related to sustainability but do not explicitly include ESG perspectives in their strategies. The gap in profitability between ESG and non-ESG companies is wider when the broader definition of ESG investment is applied.

Figure III.3. | Average net profit margin of ESG companies versus non-ESG companies (per cent)



Notes:

a. The net profit margin is calculated from the net profit divided by the total revenue. The net profit margin is averaged over time (1990–2018) and across companies to obtain average profit margins for both ESG and non-ESG companies.

b. ESG companies are companies that either incorporate ESG factors in their strategies or have a section for ESG investment in their annual reports, sustainability reports, or their homepages. ESG investment under the broad definition includes (i) ESG companies and (ii) companies that report activities related to sustainability but do not explicitly include ESG perspectives in their strategies or have a section on ESG investment in their annual reports, sustainability reports, or homepages.

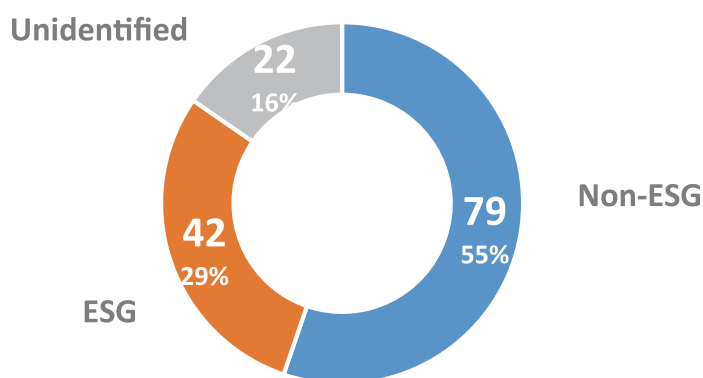
Source: AJC’s compilation.

Moving into the mainstream

The adoption of ESG investment and strategies related to SDGs is gaining momentum in ASEAN countries. One-third of the surveyed companies were considered as ESG companies, while almost half of the sample (42%) recognized the Sustainable Development Goals (SDGs) (Figures III.4 and III.5).

ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) show a promising trend of ESG investment, but greater efforts are necessary for the rest of the Member States to catch up with ASEAN-5 (Figure III.6). The majority of surveyed companies in Singapore (70%) and Thailand (59%) were ESG companies. With this fact, Singapore and Thailand have a higher proportion of ESG companies than other Member States and, therefore, are leading in terms of ESG investment among ASEAN countries.

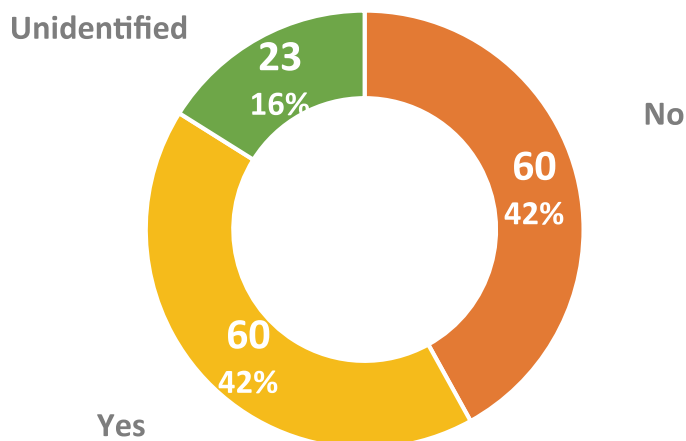
Figure III.4. | ESG and non-ESG firms (number and percentage of firms)



Note: ESG companies are companies that either incorporate ESG factors in their strategies or have a section for ESG investment in their annual reports, sustainability reports, or homepages.

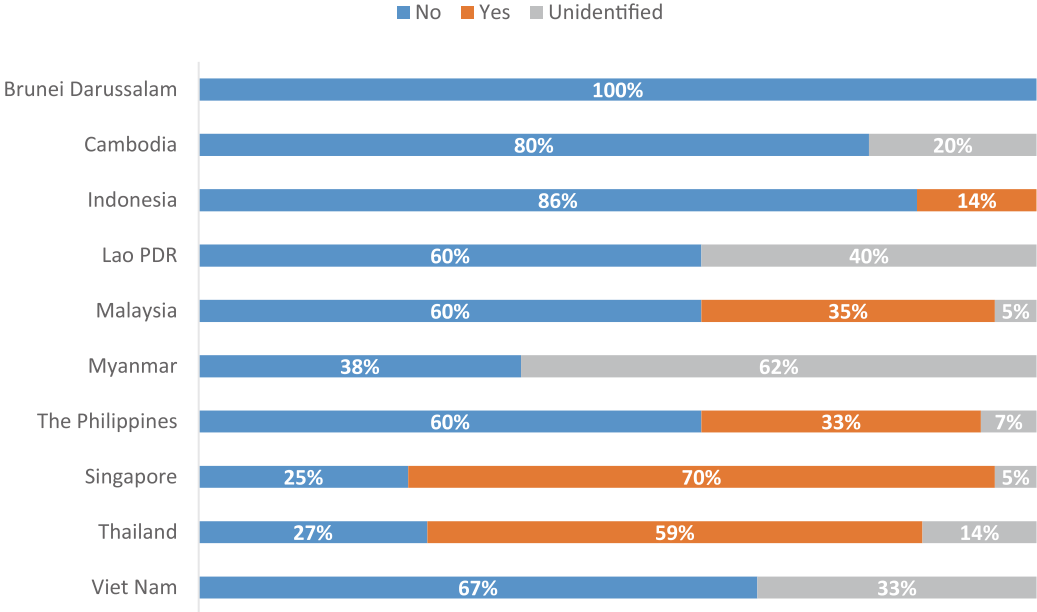
Source: AJC's compilation.

Figure III.5. | Awareness of the Sustainable Development Goals (number and percentage of firms)



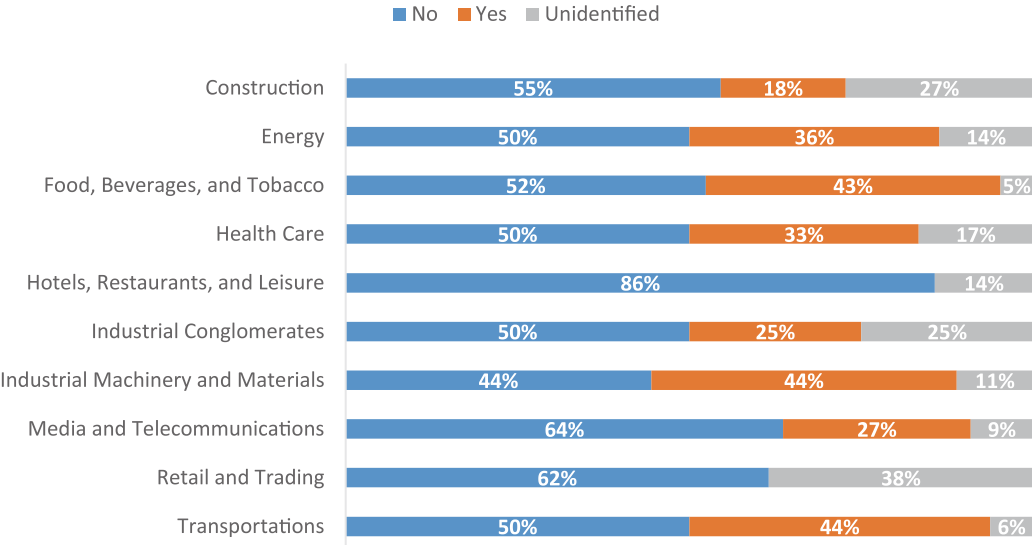
Source: AJC's compilation.

Figure III.6. | ESG investment by country



Source: AJC's compilation.

Figure III.7. | ESG investment by industry



Source: AJC's compilation.

Figure III.7 indicates the proportion of ESG companies by industry. ESG companies are mainly in the food, beverage, and tobacco industry, industrial machinery and materials industry, and transportation industry. Moreover, awareness shows signs of increasing in other industries, such as the construction (18%), energy (36%), health care (33%), industrial conglomerates (25%), and media and telecommunications (27%) industries. However, slow adoption of ESG investment is observed in the tourism-related industries (hotels, restaurants, and leisure) and retail and trading, in which none of the surveyed companies explicitly discuss ESG investment in their company reports or homepages.

In terms of the duration of ESG investment, Thai companies have been engaging in ESG investment longer than those of other Member States. The longest duration of adoption of ESG investment is six years by PTT Public Company Limited (PTT),⁵ a Thai company in the energy industry. Similarly, Thai Oil Public Company Limited (Thai Oil)⁶ and Indorama Ventures Public Company Limited from Thailand have engaged in ESG investment for five years, which is the second longest among all ESG companies. Apart from Thai companies, Top Glove Corporation Bhd. from Malaysia also illustrates a long period of ESG investment adoption. The majority of ESG companies (62%) adopted ESG investment in 2017 or 2018 (Figure III.8); therefore, in recent years, the growth rate of ESG companies has been high in ASEAN countries (approximately 260%). However, only one-third of the ESG companies reported having concrete ESG analysis or frameworks (Figure III.9).

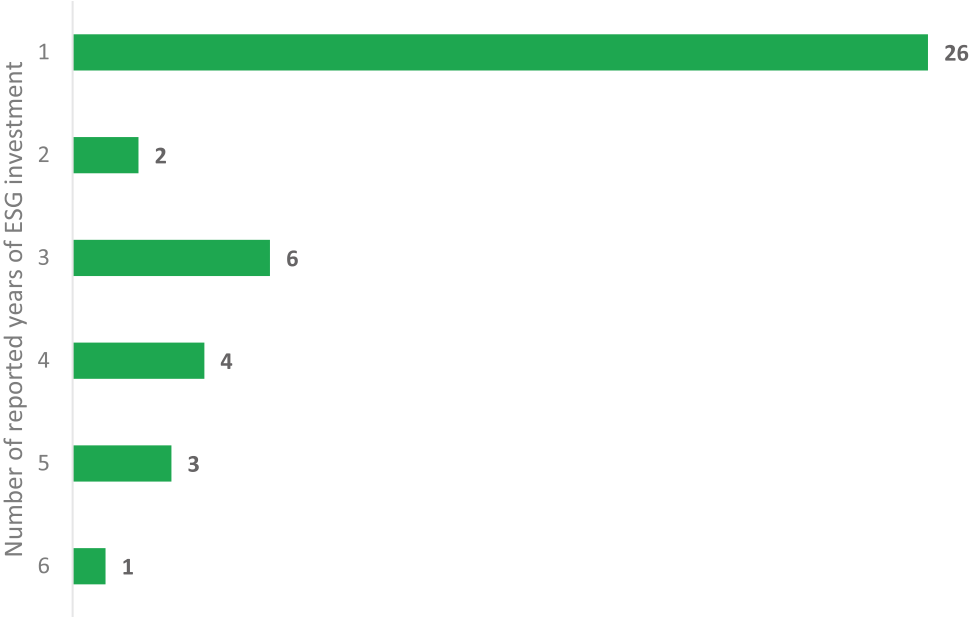
Hidden potential

Although only one-third of the surveyed companies were identified as ESG companies (Figure III.4), with the broader definition of ESG investment, Figure III.10 shows a better situation for ESG investment in ASEAN, where ESG companies account for more than half of the sample. This implies potential growth for ESG investment in ASEAN. This potential growth is not only found for ESG companies that explicitly incorporate ESG factors in their business strategies but also those companies that are implicitly involved in ESG investment (hereafter, implicit ESG companies). In contrast with ESG companies, implicit ESG companies include environmental, social, and governance factors in their business strategies in a non-integrated manner. For example, they may have sustainability strategies considering the environment and social aspects, which represent the “E” and “S” elements of ESG investment, but do not integrate them in their main business strategies or have an ESG framework or analysis. Rather, sustainability strategies tend to be considered as a part of a CSR programme, which may not be necessarily be related to a company’s main business strategies. With the current ESG trend and support from the government, these implicit ESG firms can mature and become ESG firms in the near future.

⁵ In 2018, PTT became the global industry leader in the oil, gas upstream, and integrated industry category of the Dow Jones Sustainability Indices (DJSI).

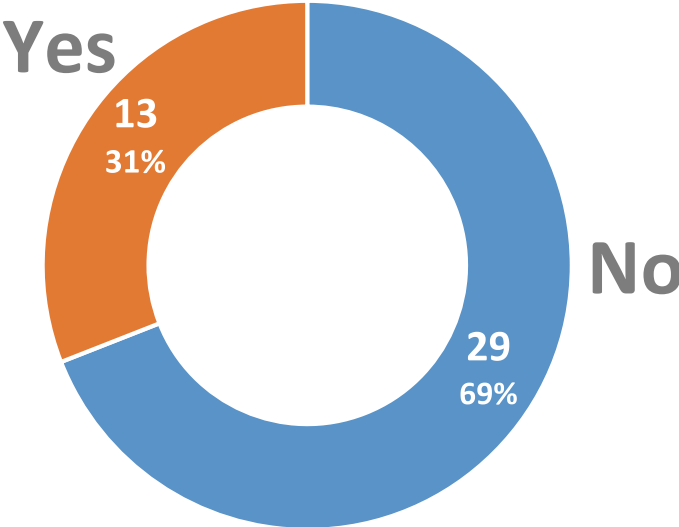
⁶ Thai Oil led DJSI’s global energy industry category for the past three years (2015–2017).

Figure III.8. | Duration of ESG investment (number of firms)



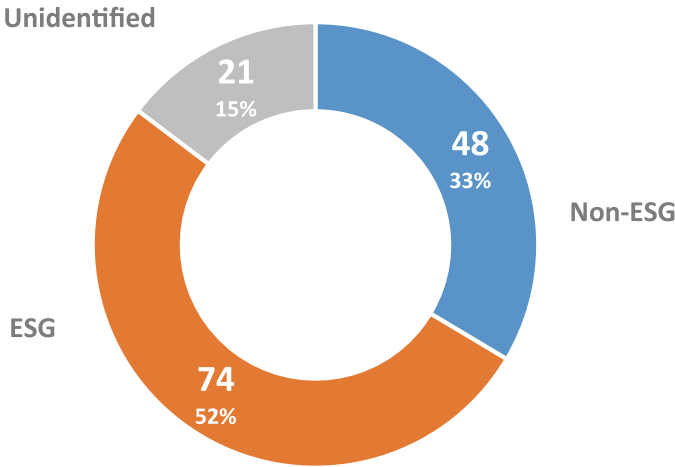
Source: AJC's compilation.

Figure III.9. | Firms reporting ESG analysis or framework (number and percentage of firms)



Source: AJC's compilation.

Figure III.10. | ESG and non-ESG Firms using the broad definition of ESG investment (number and percentage of firms)



Source: AJC’s compilation.

B. BEST PRACTICES

This section introduces the best practices of ESG initiatives among ASEAN firms. The best practices are given to support the finding that the profitability of ESG firms is higher than that of non-ESG firms. As ESG investment helps firms increase profitability through two main mechanisms, namely, cost reduction and revenue generation, best practices can be defined as initiatives that make creative and quantifiable contributions in terms of these mechanisms.

**PT Holcim Indonesia Tbk
(Construction materials, Indonesia)**

ESG investment:	No	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	At least \$70 million (2017)		
Cost reduction:	Yes		

PT Holcim Indonesia Tbk (formerly PT Semen Cibinong Tbk) was founded in 1971 and is a subsidiary of LafargeHolcim Ltd., based in Jakarta. The company operates both within Indonesia and internationally to produce and distribute cement. It also offers construction and support services and offers licensing for mining and quarrying and related financial services.

Although PT Holcim Indonesia Tbk (Holcim Indonesia) does not explicitly incorporate ESG investment into its corporate strategy, it indicates that it is profitable while implementing sustainability-related activities. Approximately 10% of its total revenue (\$70 million) comes from sustainable solutions offered to its consumers. These solutions include producing cement-based materials with minimum

impact on the environment, such as pervious concrete solution and using biomass and industrial waste as an alternative energy, to name a few. In terms of cost reduction, waste management and renewable energy are claimed to bring cost efficiency in Holcim Indonesia’s operations. Under its “2030 Plan”, Holcim Indonesia announced that by 2030, one-third of its revenue will come from products, services, and solutions that offer enhanced sustainability performance. Apart from the “E” factor, Holcim Indonesia also considers “S” and “G” elements in its operation. These initiatives and activities can possibly be developed into an ESG investment framework in the future.

**PT Semen Indonesia (Persero) Tbk
(Construction materials, Indonesia)**

ESG investment:	No	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$8.6 million (2017)		

PT Semen Indonesia (Persero) Tbk (formerly PT Semen Gresik (Persero) Tbk) is based in Gresik, Indonesia, and was founded in 1953. The company’s main activities include the manufacturing and distribution of cement in domestic and international markets as well as coal, clay, and limestone mining; industrial real estate; coal trading and transportation; and freight forwarding, sea freight, and trading services.

The company emphasises its energy efficiency and emissions reductions, which represent the “E” element in ESG investment. It claims it can save up to \$8.6 million in power costs annually and reduce carbon dioxide (CO2) emissions by 122,000 tonnes through the use of clean energy.

**Genting Berhad
(Hotels, restaurants and leisure, Malaysia)**

ESG investment:	No	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$116,000 (2017)		

Genting Berhad was founded in 1965 and is located in the Malaysian capital of Kuala Lumpur. As an investment holding company, Genting Berhad is active in a range of operations in a variety of sectors. Some examples include hotel, entertainment, and travel businesses in the leisure and hospitality sector; electricity generation and supply in the power sector; natural resource production and development in the oil and gas sector; and palm oil plantation management and milling operations. The company also engages in private debt securities issuance, intellectual property right licensing, and life sciences research and development (R&D) services, among many other activities.

Genting is another example of a company making cost savings due to waste management. The company saved over \$116,000 from recycle and reuse activities and has also strengthened its water management for further cost reductions.

Universal Robina Corporation
(Food products, the Philippines)

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Yes		
Cost reduction:	At least \$275,000 (2017)		

Universal Robina Corporation is a subsidiary of JG Summit Holdings, Inc. It is based in Quezon City in the Philippines and was founded in 1954. The company sells branded food products, such as snacks, confectionaries, and beverages to retailers, wholesalers, distributors, and other outlets and operations within the Philippines as well as abroad. It is also engaged in farming, the manufacturing and distribution of animal feeds and health products, and the production of flour and sugar.

Universal Robina generates its revenues from food waste materials and recycles starch into raw materials for packaging products to create new products for sale. This shows a way of utilizing technology and creativity to earn income by incorporating the “E” factor into a company’s business plan. Furthermore, Universal Robina minimizes its production costs and operational expenditures through its efficient and effective waste management across different production lines. For example, waste from sugar and pasta production is fed to its livestock, and waste from its livestock are converted into electricity, which saves \$275,000 annually (waste-to-energy initiatives). Therefore, integrating ESG investment in a firm’s core business strategy can result in both revenue generation, cost reductions, and, in turn, profitability.

Fraser and Neave, Ltd.
(Food products, Singapore)

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$3.2 million (2017)		

Fraser and Neave, Ltd. is based in Singapore as a subsidiary of TCC Assets Ltd., founded in 1883. The company’s main activities are related to food and beverage production and the production of dairy products in markets around the world. It also engages in publishing and printing, the sale of stationery, commercial packaging, and property development and investment.

Fraser and Neave have adopted new technologies in its production processes and improved its existing machinery to raise production efficiency, such as by reducing the unnecessary workload on its employees (“S” factor), and to ensure cost savings through reducing input and energy consumption (“E” factor). While saving costs, the company also ensures that its production minimizes the environmental impact on surrounding communities. At first glance, Fraser and Neave’s sustainability activities may not seem directly related to ESG investment. However, with the concrete and estimated numbers, evidence, and explanations in its annual reports, Fraser and Neave show that it carefully and subtly integrates ESG factors into the company’s core business strategy. Across different business models, Fraser and Neave’s cost reduction from ESG investment is at least \$3.2 million per year.

**Keppel Corporation Limited
(Industrial Conglomerates, Singapore)**

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$27.4 million (2017)		

Keppel Corporation Limited is an investment holding company based in Singapore that was founded in 1968. It is involved in domestic and international activities including in the areas of construction for marine facilities, vehicles, and rigs; engineering works; and offshore production. It also actively engages in property development, management, and investment and hotel operations as well as electricity generation and supply, metal fabrication, and supply-chain related operations.

Keppel Corporation has made efforts for sustainability and ESG investment in several areas. In its sustainability report, Keppel Corporation highlighted its sustainability and ESG-related activities, including being a constituent of the Singapore Exchange (SGX) ESG Leaders Index and the SGX ESG Transparency Index; achieving \$27.4 million worth of energy savings in 2017; engaging its employee in ESG activities; contributing to \$22.1 million in social investments; and receiving awards, such as the Sustainability Award from the 18th Securities Investors Association (Singapore) Investors’ Choice and the Sustainable Business Awards 2017, among others. These efforts indicate the several possibilities and aspects of ESG-related activities that any firm can implement as long as they are creative.

Charoen Pokphand Foods Public Company Limited (Food products, Thailand)

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	At least \$699 million (2017)		
Cost reduction:	At least \$1.5 million (2017)		

Charoen Pokphand Foods (CPF) was founded in 1978 and has its headquarters in Bangkok. The company operates in the agro-industrial and integrated food sectors internationally and in Thailand and mainly produces feed for livestock and other animals and also engages in breeding. Additionally, it is involved in the sales chain of food products and the distribution of animal vaccines and provides a range of services, such as consulting, food R&D, and financial services. The brand names of its products include CP, 5-Star, Kitchen Joy, and BK.

CPF is one of the leading ESG firms in the survey. Its sustainability report is very comprehensive and presents both mechanisms of ESG for promoting profitability. In terms of revenue generation, CPF earned \$699 million from green products in 2017. These product groups come from its Product Sustainability Project, initiated in 2012, Carbon Footprint Label Project (2008), and Carbon Footprint Reduction Label Project (2015), among others. To produce sustainable products, CPF emphasizes the “S” and “E” factors of ESG investment.

Regarding cost reductions, CPF has been promoting its working environment and operational efficiency by focusing on people connectivity. Nevertheless, the most important and quantifiable mechanisms of cost reduction have come from initiatives on energy efficiency and greenhouse gas (GHG) reductions. In 2017, CPF implemented 59 projects under the “E” factor. These projects resulted in 41,760 gigajoules of energy saving, 16,658 tonnes of CO₂-equivalent of GHG emissions reduction, and \$1.5 million in cost savings.

Indorama Ventures Public Company Limited (Petrochemicals, Thailand)

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$412,000 (2017)		

Indorama Ventures Public Company Limited (IVL) is a subsidiary of Indorama Resources Limited and is based in Bangkok with operations around the world. It is involved in the production and distribution of various petrochemicals, such as the production of PET resins and packaging materials. It also produces several forms of feedstock and fibres, such as polyolefin and polyester fibres, to be used in woven and non-woven products, apparel, and textiles.

Similar to other ESG firms, IVL’s main ESG activities focus on the “E” factor. It strives for operational efficiency while reducing its environmental impacts. Through multiple ESG initiatives, including utilizing cleaner technology and improving energy efficiency, the firm achieved higher competitiveness from approximately \$412,000 in cost savings in 2017. The company also gained trust and increased its reputation among its stakeholders, such as its employees, contractors, corporate assets, and communities surrounding its plants. In addition to the “E” factor, IVL also undertook “S” factor-related initiatives, such as health and safety measures. These initiatives worked to not only raise the morale of employees and contractors but also reduced costs from lost work hours and employee illness and injuries, to name a few. Ultimately, these initiatives have increased the firm’s profits.

**PTT Global Chemical Public Company Limited
(Petrochemical, Thailand)**

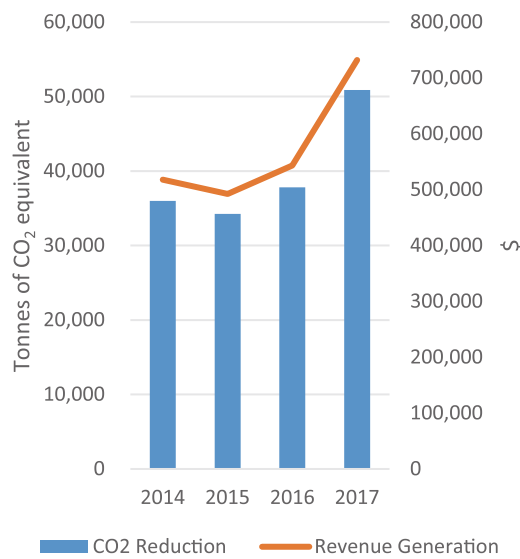
ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	At least \$34.3 million (2017)		
Cost reduction:	At least \$46.5 million (2017)		

PTT Global Chemical Public Company Limited (PTTGC) is headquartered in Bangkok. The company produces and distributes ethylene, propylene polyethylene, and biochemical products and engages in the production of refined petroleum and aromatics products. It also offers services, including factory maintenance and safety and environmental services, chemicals R&D, and produces and distributes electricity and water.

PTTGC is the most creative and active ESG firm in the survey. It has undertaken several ESG initiatives that, in turn, have enhanced its profitability through both mechanisms of revenue generation and cost reduction. Its sustainability reports give a comprehensive review of its projects with concrete valuations of revenue generation and cost reduction.

In terms of revenue creation, PPTGC has initiated the Raw CO2 Trading Project to trade carbon dioxide to use as a raw material in the production of sodium carbonate. This project can generate income while reducing GHG emissions (Figure III.11). Furthermore, PPTGC offers new business solutions and product lines to meet the growing global and domestic demand from environmentally conscious consumers and business clients. These business solutions and product lines include low-density polyethylene film products, which reduce raw materials consumption, products made from recycled materials, and resource-efficient packaging. In total, ESG-related initiatives generated revenue for PPTGC of around \$34 million in 2017.

Figure III.6. | ESG investment by country



Source: AJC’s compilation based on PPTGC (2017).

To achieve cost reductions, PPTGC has invested in several environmental and energy projects, namely solar power systems, clean energy technology, air quality control, waste reduction projects, and innovation for the environment, among others. In 2017, under 63 environmental and energy projects, PPTGC archived cost savings of \$46.5 million. Nearly all of the projects were implemented within the production process in order to improve production efficiency and reduce the environmental impacts.

In addition, PPTGC has noted the importance of supply chain management, which is included in the “S” factor of ESG investment. PPTGC conducted a project of capability enhancement for a sustainable supply chain. It claims that production and transportation costs were reduced by 10% through the project.

**Thai Union Group Public Company Limited
(Food, Thailand)**

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Yes		
Cost reduction:	At least \$0.62 million (2017)		

Thai Union Group Public Company Limited (Thai Union), formerly known as Thai Union Frozen Products Public Company Limited, was started in 1998 and has its headquarters in Samut Sakhon in Thailand. It produces and sells canned, chilled, and frozen seafood, such as salmon, lobsters, and crabs, both within Thailand and abroad. Its seafood products are sold to retailers, including restaurant chains and wholesalers. It also engages in printing and property-related services and oil refining.

Although Thai Union does not have explicit revenue from ESG investment, it has stated that the resale of recycled goods could be one of its potential business projects for generating significant new streams of income while reducing operational costs. As a result, ESG initiatives can raise the company’s corporate bottom line. In terms of cost reduction, Thai Union reduced its operational costs by around \$620,000 in 2017 through waste, energy, and GHG reduction programmes, waste-to-energy programmes, and technological improvements in operations.

**Thai Beverage Public Company Limited
(Beverage, Thailand)**

ESG investment:	Yes	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$11.6 million (2017)		

Thai Beverage Public Company Limited (ThaiBev), founded in 2003, is based in Bangkok. It operates internationally to produce and distribute food products and alcoholic and non-alcoholic beverages. It offers a range of beverages as well as chilled and frozen foods and provides services for brand management, training, advertising, and marketing, among others. It also trades in the related production of plastic packaging, consulting, advertising and marketing, human resources and organization development services, and other businesses.

In contrast to other ESG firms in the survey, ThaiBev puts more emphasis on the “S” factor rather than the “E” factor of ESG. To improve its workers and build a better working environment, ThaiBev has invested in training courses, including Total Production Maintenance, Total Quality Management, and Thai Beverage Logistics. The training courses were organized in collaboration with leading Thai universities, such as the Science and Technology Research Institute of King Mongkut’s University of Technology North Bangkok and Khon Khaen University. It is claimed that the training courses led to higher quality human resources, increased efficiency in terms of production in a sustainable manner, and lowered production costs. ThaiBev saved approximately \$2.7 million in 2017 owing to the training course programme.

ThaiBev has also invested in the “E” factor in terms of its waste-to-energy programme and has continuously carried out R&D in this area. In 2017, it converted its waste to alternative energy, such as biomass fuel, and saved energy costs of around \$8.9 million.

**Vietnam Dairy Products Joint Stock Company
(Food, Viet Nam)**

ESG investment:	No	Implicit ESG investment:	Yes
SDG:	Yes	Profitable:	Yes
Revenue generation:	Not available		
Cost reduction:	At least \$290,380 (2017)		

Vietnam Dairy Products Joint Stock Company (formerly Vietnam Milk Company, hereafter Vinamilk) was founded in 2003 and has its headquarters in Ho Chi Minh City. It offers milk and dairy products in Viet Nam and internationally. For example, it processes, manufactures, and distributes soy milk, fresh milk, ice cream, and cheese products. It also engages in the trading of food technology, the trading of real estate, and the provision of health care clinic services. Furthermore, it is involved in retailing sugar, bread, and various alcoholic and non-alcoholic beverages.

Vinamilk is one of the most creative ESG firms in the study. It offers unique and detailed solutions, innovations, and initiatives for ESG investment (Tables III.1 and III.2). Vinamilk focuses on the “E” factor, e.g. energy usage optimization and the protection of land and water.

Table III.1. | Water-saving solutions, innovations, and initiatives

No.	Solutions, innovations, and initiatives	Cost saving (\$ per annum)
1	Recovery of cold water at two dispensing machines	4,918
2	Renovation of the heat exchanger system at two machines UHT1	4,099
3	Renovation of the heat exchanger system at two machines UHT2	4,055
4	Implementation of total solutions to save water: <ul style="list-style-type: none"> - Making regulations, raising awareness of employees about saving water in the factory; - General review of the CIP regime - Review of all machines and equipment using water (water ring pumps, assimilation lubricants, etc.), resetting minimum value within allowed limits - Reducing sanitary faucets and attaching metres (to raise awareness) 	5,824
5	Washing machinery and equipment, cleaning the workshop properly, recycling, water leakage treatment, planning production reasonably, using water economically	6,342
	Total	25,238

Source: Adapted by AJC from Vinamilk’s Sustainable Development Report (2017).

Table III.2. | Energy-saving solutions, innovations, and initiatives

No.	Solutions, innovations, and initiatives	Cost saving (\$ per annum)
1	Quick opening-closing door of cold storage	12,204
2	Replacement of LED bulbs in the cafeteria and other areas	431
3	Renovation of the cooling system of the spoon presses	5,477
4	Renovation of cold storage for creams (enclosures, cold storage room partition) instead of 40-foot cold containers.	10,307
5	Refreshing of cream pasteurizer, yogurt ice cream cooler	992
6	Adjustment of running mode, reduced cost of boiler	8,841
7	Replacement of old fluorescent bulbs with energy-saving LED bulbs	242
8	Repair and replacement of drying tower Chiller 2	26,221
9	Inspection and repair or replacement of steam valves, leaking steam pusher, leaking steam (check for air leakage: No. 1,2,3 drying tower and drying shaft)	11,299
10	Optimization of operating mode of the compressed air system: reduced no-load time	24,323
11	<ul style="list-style-type: none"> - Forklift optimization: Additional parking space at material store is arranged to limit the carriage to the beginning and end of each shift - Strengthened staff training to use forklift for the right purpose, minimize use of the forklift without goods 	216
12	Improvement of the control mechanism of the plastic distributor of MSB bottle blower (replaced hydraulic pump system including motor 5.5KW with mechanical latch)	1,639
13	Transfer of the chemical tank to the conversion tank using an electro-valve instead of a chemical dosing pump	4,528
14	Heat-relieving switch by cold water to cooling tower for yogurt pasteurization process. Turn off electrical appliances when not needed, buy and use energy-saving appliances, actively cool during low hours, fix in time for abnormal electrical equipment.	115,752
15	Proper operational of the boiler, immediate repair as soon as there are steam leaks, condensate leaks. Making a reasonable production plan, buying steam from outside units.	42,738
	Total	265,210

Source: Adapted by AJC from Vinamilk's Sustainable Development Report (2017).

C. CONCLUSION

This chapter presented the main findings from the survey of ASEAN firms on ESG investment. First, ESG investment is associated with greater profitability. In other words, ESG firms' profitability is, on average, higher than that of non-ESG firms. Furthermore, this finding confirms the growing trends and prospects for ASEAN ESG investment presented in Chapter II. Second, the adoption of ESG investment and SDG-related strategies is gaining momentum in the region. ASEAN-5 shows a promising trend for ESG investment, whereas greater efforts are necessary for the rest of the Member States. Third, ESG investment varies by industry; ESG firms are mainly in the food, beverage, and tobacco industry, the industrial machinery and materials industry, and the transportation industry, while there has been slow adoption of ESG investment in the hotels, restaurants, and leisure industries and the retail and trading industry. Lastly, the finding indicates that ESG investment has been implicitly and unsystematically implemented among ASEAN firms.

This particular finding implies the potential for ESG investment growth in ASEAN countries. The main challenge is that even though ESG factors are found in firms' sustainability and governance strategies, the firms still face difficulties in fully integrating ESG investment into their core business strategies. Therefore, further efforts should be spent on the explicit and systematic integration of ESG investment.

Next, the best practices of ESG initiatives among ASEAN firms support and further explain the survey findings, especially in terms of higher profitability for ESG firms. In general, ESG investment helps firms raise profitability through two main mechanisms, cost reduction and revenue generation. Firms with best practices comprehensively report concrete statistics on either cost reduction or income generation, or both. The examples examined in this report show that ASEAN ESG firms are creative and innovative in integrating ESG investment in their business strategies. They offer new business solutions and products to their clients while utilizing new technology and innovation in their production process to improve efficiency. Most of the firms focus on the "E" factor as there is growing demand from environmentally conscious clients and it is relatively easier to quantify. However, some firms also focus on the "S" factor as they believe improving the working environment and stakeholder involvement, especially for workers and suppliers, can result in higher operational efficiency and lower operational and transactional costs. Regarding the "G" factor, all firms report on corporate governance but only a few show concrete statistics related to cost and revenue benefits or attempt to estimate the costs of governance-related risks.

CHAPTER IV

CHALLENGES AND THE WAY FORWARD

A. WHAT ARE THE STUMBLING BLOCKS FOR ESG INVESTMENT?

While the trends and efforts for ESG investment summarized in the previous chapters are significant and encouraging, there are still challenges remaining for ASEAN entrepreneurs. At present, many ASEAN firms have not fully integrated ESG investment into their core business strategies and suffer from inadequate support from the public sector. In addition, there is still a weak link between ESG investment and the achievement of the SDGs. Further progress by firms, exchanges, and policymakers is particularly important given this context. These challenges should be addressed urgently to take advantage of the growth potential of ESG investment.

1. Misperceptions about ESG investment

As ESG investment is generally in its early stages in ASEAN, there are still firms that consider ESG investment to be an unnecessary practice or even a burden. A lack of understanding of the importance of ESG investment remains among investors and even policymakers. Despite increasing demand for sustainable and impact investment solutions and a growing body of evidence to support the effectiveness of ESG investment, particularly from the financial perspective, many investors are still unclear of the relationship between ESG investment and economic or real performance.

The first misperception is that ESG investment is costly and unprofitable. In addition, some firms believe that ESG investment is only relevant when considering investment in the financial market. ESG investment, however, creates financial value for investors, correlates with lower volatility, and does not lower investor financial returns. Moreover, the survey carried out for this report (Chapter III) shows that ESG investment is associated with greater economic or real performance, including lower costs, higher revenue, and greater profit. Therefore, ESG investment is profitable and relevant to all investors and entrepreneurs, whether they invest in the financial sector or the real sector. All companies, regardless of whether they are listed on a stock market, should integrate ESG investment into their core business strategies and consider ESG investment as an essential part of their growth strategies.

Finally, firms embrace the belief that consumers and investors care little about ESG factors. According to the survey, few firms develop a robust story or framework for their ESG investment. Since they have not realized that communicating their ESG initiatives and performance to consumers, business clients, and investors is important, many firms report on sustainability performance in an implicit, unintegrated, and unsystematic manner. Nevertheless, there is growing demand for ESG investment around the world and gradually in Asia, especially in ASEAN. Consumers and investors are becoming more conscious of ESG factors. Recently, there is growing global and domestic demand from environmentally and socially conscious consumers and business clients. Hence, firms should consciously integrate ESG investment in their business strategies to respond to these customers.

2. Limited capacity to fully integrate ESG investment

The main challenge to the development of ESG investment among ASEAN entrepreneurs is that ASEAN firms still have not acquired the necessary capacity to fully integrate ESG factors into their core business strategies.

Lack of know-how: The concept of ESG investment is new and broad. ESG factors are traditionally non-financial in nature and, therefore, difficult to measure in quantitative terms. Depending on the industry, the scope of ESG investment can also vary greatly. Even within the same industry, ESG investment can be broad-based as it includes multiple aspects, such as cost reductions, supply chain management, and technology development; and several stakeholders, such as consumers, communities, and regulators. Therefore, there is no one-size-fits-all solution for firms to fully integrate ESG investment. The lack of a standardized and objective method for implementing ESG investment and measuring its results poses a daunting prospect to many firms. However, this challenge also offers a new opportunity to implement ESG initiatives and incorporate them in core business strategies by allowing firms to become creative, innovative, and flexible.

Lack of resources: This is particularly true for MSMEs. In addition to the lack of know-how in which even large firms are facing difficulties, a lack of resources, such as financial resources and human resources, poses a greater hurdle to MSMEs in integrating ESG investment. In such firms, the keys to overcoming these challenges will be creativity and innovation.

3. Insufficient guidelines and support from exchanges and the government

In Chapter II, we reviewed the ASEAN ESG investment policy landscape and found that the performance of exchanges and the involvement of the government varies considerably among ASEAN countries. In general, there are insufficient guidelines from exchanges in many countries. Only four countries (Malaysia, Singapore, Thailand, and Viet Nam) provide written guidance on ESG reporting and require listed companies to report on ESG, while five countries (Malaysia, the Philippines, Singapore, Thailand, and Viet Nam) offer some form of ESG-related training. Although the exchanges have been engaged in promoting ESG among the listed companies, greater support from the exchanges is still needed. According to the survey, only one-third of the surveyed companies are implementing ESG investment. Some firms probably have not recognized the benefits of ESG investment, whereas others may be aware of ESG investment but do not know where to start. This is related to the issue of firms' misperceptions of ESG investment and the limited capacity for the integration of ESG factors. In addition, we found that policies and regulations on ESG investment are still lacking at the national level. They are still broad and not directly related to ESG investment. At present, ESG investment has mostly been carried out in the financial sector and financial markets. Unlisted firms, especially MSMEs, have been left behind.

B. POLICY RECOMMENDATIONS

ESG offers substantial benefits for both investors and companies. This section identifies some practical steps that companies can take to effectively incorporate ESG and proposes recommendations for policymakers and regulators for further promoting ESG investment.

1. For entrepreneurs

Companies can gain a competitive advantage from prioritizing ESG performance and sustainability. Executives should place this at the core of their companies' values and identity to increase awareness within the company as well as among stakeholders and investors. By incorporating ESG into the overall corporate strategy, the related initiatives can collaborate to produce synergies and act as drivers of corporate growth. This will have direct and positive effects on the value and future growth paths of companies. The following are some few practical steps to help achieve fully integrated ESG investment.

Change perceptions of ESG investment: As ESG investment is associated with higher profitability and lower risk regardless of whether companies are listed on a stock market, companies should recognize the increasing importance of ESG investment and respond with the appropriate business strategies. Moreover, there is a growing demand for ESG-related products and solutions from consumers, investors, and business clients. The change in perception and corporate culture towards ESG investment can be achieved by a top-down approach in which ESG information and initiatives are delivered directly by executives and management teams. Through internal education and communication, this will allow change to come from within the organization.

Plan for an effective ESG strategy: In order to ensure ESG initiatives are sustainable and effective, companies should invest in and pursue quantifiable targets for sustainability rather than focus on rankings. This can be done by working to prove their commitment to increasing their ESG performance and sustainability and strengthening the relationship between financial and economic outcomes and ESG activities. Appropriate reporting is indispensable for setting and affirming their commitment to ESG-related outcomes and targets. This targeting of transparent and objective goals will provide the most efficient use of resources for working towards long-term and sustainable measures. Moreover, it is important to understand that different businesses and industries are facing a range of sustainability issues; therefore, ESG strategies must be designed accordingly. Once these tangible sustainability measures are in place, a long-term ESG strategy can be implemented that is suited to the company and aligned with the expectations and objectives of all stakeholders.

Take action: Fully integrating ESG investment into core business strategies usually demands time, knowledge, and resources. The scope of ESG investment can be broad and indefinite. This means that there are also indefinite opportunities awaiting for firms to explore. Firms that are more creative, flexible, and innovative will find themselves at an advantage. Chapter III has

shown that firms with product innovation and creativity in incorporating ESG factors in their business ideas can achieve both cost reductions and revenue generation. Firms with limited financial and human resources, such as MSMEs, can start ESG investment by incorporating ESG factors in their existing products or activities. They may also analyze their existing initiatives and try to discover the ESG factors that they might have already incorporated.

Work with peers and involve all stakeholders: Overcoming the challenges, such as the lack of know-how and resources, will require entrepreneurs, especially those from MSMEs, to make full use of their combined knowledge and economies of scale. By working together, entrepreneurs can learn from each other through information sharing, e.g. best practices and common problems and solutions, among others. Furthermore, involving other stakeholders, such as employees, consumers, distributors, regulators, and policymakers, in the design and implementation process of ESG initiatives through dialogues and consultations will help entrepreneurs understand the ESG issues even better and deliver the right mix of ESG initiatives. These efforts will further develop a better investment environment that promotes fully integrated ESG investment among entrepreneurs and sustainable development in society.

2. For regulators and policymakers

Exchanges and the government can implement policies and regulations that promote rigorous ESG investment by companies listed on the domestic stock exchange as well as unlisted companies together with investment promotion agencies and the relevant ministries. Thailand's case is illustrative of this (see Box IV.1).

Communicate the benefits of ESG investment: While the survey results show the benefits of ESG investment, many entrepreneurs are still sceptical of the contribution of ESG investment to a firm's financial and economic performance. Thus, the most pressing agenda for policymakers is to change entrepreneurs' perceptions of ESG investment by conveying its benefits to them and society as a whole.

Implement mandatory sustainability disclosure regulations: Policymakers can make sustainability disclosure mandatory for listed and non-listed entities. To do so, policymakers have to create a clear set of key ESG performance indicators and indices that meet both international standards and also current domestic ESG issues. A key ESG performance index can be divided into a general index that applies to all firms, and industry-specific indexes that apply differently to firms by industry. In addition, policymakers should provide a standard format for sustainability reports. The format should be simple and easy to understand to all relevant stakeholders in order to involve them in the monitoring process.

Provide specific guidelines and support: Policymakers should provide a clear set of guidelines on ESG investment. The guidelines must be tailored to a specific industry as industries face different ESG priorities. Furthermore, exchanges and governments may provide individual

consultation sessions for those entrepreneurs who are interested in ESG investment but unfamiliar with the concept. Policymakers can also act as a medium to establish a framework or dialogue that enables all stakeholders together to develop detailed ESG standards and best-practice guidelines.

Evaluate firms' ESG performance periodically: Regulators and policymakers are recommended to keep track of and evaluate firms' ESG investment performance over time. The evaluation result should be disclosed to the public in order to create competitive pressure among firms and also involve all stakeholders in the monitoring process. Through the evaluation process, the regulators and policymakers can come to understand the current situation of ESG investment and learn about the problems and issues of ESG factor integration faced by firms. This further helps policymakers to improve existing policies and regulations and better design new policy instruments to facilitate firms in implementing ESG investment.

In addition, it is also recommended to compile an ESG database that contains evaluation results over time. With the database, policymakers can conduct analysis to examine the trends and progression of ESG investment and its long-term impacts on firms' financial and economic performance and society as a whole.

Take advantage of the digital age: Regulators and policymakers can utilize information technology and big data to help implement policies and regulations, namely through the promotion of ESG investment, assimilation of ESG investment information, evaluation of ESG performance, and compilation of ESG data, among others. By taking advantage of technology, regulators and policymakers can reduce transaction costs, improve work efficiency, and connect all stakeholders together to help monitor firms' ESG performance and design proper policies and regulations that meet the needs of society.

Emphasize the links between ESG investment and the SDGs: ESG investment can also play a strong role in working towards the SDGs as the goals relate to a range of important social and economic issues. However, there is still a weak link between the two concepts. Therefore, governments should take the initiative to communicate the importance of SDGs to the business sector and show how ESG investment can help promote the SDGs. Governments should also provide technical support and guidelines to all firms. As a result, this will stimulate and help firms to align their ESG initiatives with the SDGs.

C. CONCLUDING REMARKS

Throughout this report, the importance and benefits of ESG investment have been emphasized as witnessed by the growing demand for ESG investment around the world, including ASEAN, and the finding that ESG investment is associated with greater profitability, both in terms of financial and economic performance. All firms, regardless of their size and whether they are listed on a stock market, should, therefore, integrate ESG investment into their core business

strategies and implement ESG investment as an essential part of their growth strategies.

ASEAN has made strong and encouraging progress in increasing the uptake of ESG investment and the adoption of strategies that consider the SDGs. ASEAN ESG firms include strong examples of innovative and creative strategies for incorporating ESG into business strategies and objectives. They have grown to utilize the latest technologies and offer new business solutions and products along with concerted consideration of ESG factors. Although significant progress is still needed for the “S” and “G” factors of ESG, the “E” factor now plays a strong role in the strategies of many firms.

Nevertheless, challenges remain. At present, ASEAN firms have not fully integrated ESG investment in their core business strategies, and inadequate support from governments may aggravate the current ESG situation. Although firms, regulators, and policymakers are the main players who should take immediate action to further progress ESG investment, involving other stakeholders through frameworks and dialogue can also help accelerate the progress. All stakeholders can work together to design well-rounded and comprehensive ESG initiatives at the firm level and shape better ESG-related policy instruments at the national level. Through these efforts, it is hoped that the ESG issues facing society will be reflected in an increasing number of initiatives, policies, and regulations. This, in turn, will create a better ESG investment environment and promote sustainable development throughout society.

Box IV.1. | SET and Thailand as a model for ESG performance

Thailand is a leader in ASEAN for ESG performance, and the country ranks highest among ASEAN Member States for sustainability disclosure and disclosure quality. These accomplishments have been made possible through the efforts of the Stock Exchange of Thailand (SET), which has worked to raise understanding and awareness of ESG.

SET promotes the role of sustainability reporting for providing a more comprehensive overview of companies’ processes and activities. It encourages companies with the message, “start from what you have”, prompting them to begin by reporting even on small ESG-related activities. As companies’ capacities for sustainability reporting increase, they can progress to meeting international reporting standards, such as the GRI Sustainability Reporting Standards. Currently, 93 listed companies have published reports following the GRI Standards.

SET requires ESG reporting as a listing rule for its 656 listed companies. It also provides training related to sustainable development and ESG reporting and offers written guidance in its Guidelines for Sustainability Reporting. Through these continued efforts, SET and Thailand have become strong examples within the ASEAN region for implementing ESG best practices.

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ANNEX TABLE

List of surveyed firms

Country	Company	Industry
Brunei Darussalam	Brunei LNG	Energy
Brunei Darussalam	Hua Ho Department Store	Retail and Trading
Brunei Darussalam	Royal Brunei Airlines	Transportations
Brunei Darussalam	Telekom Brunei	Media and Telecommunications
Cambodia	ABOUTAsia Travel	Hotels, Restaurants and Leisure
Cambodia	Anco Brother Co.,Ltd	Retail and Trading
Cambodia	Attwood	Retail and Trading
Cambodia	Cambodia Angkor Air	Transportations
Cambodia	Cambrew Brewery	Food, Beverages, and Tobacco
Cambodia	CamGSM	Media and Telecommunications
Cambodia	Camnet Internet Service	Media and Telecommunications
Cambodia	Comin Khmere	Construction
Cambodia	Kampot Cement	Construction
Cambodia	Kingdom Breweries	Food, Beverages, and Tobacco
Cambodia	Mong Reththy Group	Industrial Conglomerates
Cambodia	Pheapimex Fuchan Co.,Ltd	Industrial Conglomerates
Cambodia	Sokimex	Industrial Conglomerates
Cambodia	Telecom Cambodia	Media and Telecommunications
Cambodia	The Royal Group	Industrial Conglomerates
Indonesia	Adaro	Energy
Indonesia	Aneka Tambang	Industrial Machinery and Materials
Indonesia	Astra International	Media and Telecommunications
Indonesia	Garuda Indonesia (Persero)	Transportations
Indonesia	Global Mediacom	Media and Telecommunications
Indonesia	Gudang Garam	Food, Beverages, and Tobacco
Indonesia	Hero Supermarket	Food, Beverages, and Tobacco
Indonesia	Holcim Indonesia	Construction
Indonesia	Indofood Sukses Makmur	Food, Beverages, and Tobacco
Indonesia	Kalbe	Health Care
Indonesia	London Sumatra	Food, Beverages, and Tobacco
Indonesia	Mitra Adiperkasa	Retail and Trading
Indonesia	Perusahaan Gas Negara	Energy
Indonesia	Semen Indonesia (Persero)	Construction
Indonesia	Sumber Alfaria Trijaya	Food, Beverages, and Tobacco
Indonesia	Tambang Batubara Bukit Asam (Persero)	Energy
Indonesia	Telekomunikasi Indonesia	Media and Telecommunications
Indonesia	Unilever Indonesia	Retail and Trading
Indonesia	Vale	Industrial Machinery and Materials
Indonesia	Wijaya Karya	Construction
Indonesia	XL Axiata	Media and Telecommunications
Lao PDR	Daovieng Vichith Cassava Processing Sole Co.,Ltd	Food, Beverages, and Tobacco
Lao PDR	EdI-Generation Public Company	Energy
Lao PDR	Electricite Du Lao	Energy
Lao PDR	First May Timber Processing Co.,Ltd	Construction
Lao PDR	Idea Energy Sole Co.,Ltd	Energy
Lao PDR	Lanxang Cultural Park Development Co.,Ltd	Hotels, Restaurants and Leisure
Lao PDR	Lao Satellite State Enterprise	Transportations
Lao PDR	Petro Lao Company Limited (Petro Lao)	Energy
Lao PDR	Phonesack Group Co.,Ltd	Energy
Lao PDR	Phousy Construction And Development Public Company	Construction
Malaysia	AirAsia Bhd.	Transportations
Malaysia	Astro Malaysia Holdings Bhd.	Media and Telecommunications
Malaysia	Axiata Group	Media and Telecommunications
Malaysia	DRB-Hicom Bhd.	Media and Telecommunications
Malaysia	Genting	Hotels, Restaurants and Leisure

Malaysia	Hartalega Holdings Bhd.	Health Care
Malaysia	IHH Healthcare Bhd.	Health Care
Malaysia	Malaysia Airports Holdings Bhd.	Transportations
Malaysia	Maxis	Media and Telecommunications
Malaysia	Misc	Transportations
Malaysia	MMC Corp. Bhd.	Industrial Conglomerates
Malaysia	Petronas Chemicals	Industrial Machinery and Materials
Malaysia	Petronas Gas	Energy
Malaysia	QL Resources Bhd.	Food, Beverages, and Tobacco
Malaysia	Sapura Energy Bhd.	Energy
Malaysia	Sime Darby	Industrial Conglomerates
Malaysia	Telekom Malaysia Bhd.	Media and Telecommunications
Malaysia	Tenaga Nasional	Energy
Malaysia	Top Glove Corp. Bhd.	Health Care
Malaysia	YTL Corporation	Energy
Myanmar	Asia Energy Trading Co., Ltd	Retail and Trading
Myanmar	Benhur Trading Co., Ltd	Retail and Trading
Myanmar	Dagon Beverages Co., Ltd	Food, Beverages, and Tobacco
Myanmar	Fuxing Brother Co.,Ltd	Retail and Trading
Myanmar	Information Technology Central Services Co., Ltd	Media and Telecommunications
Myanmar	Myanmar Economic Holdings Limited	Industrial Conglomerates
Myanmar	Myawaddy Trading Ltd	Retail and Trading
Myanmar	P T Power Trading Co., Ltd	Retail and Trading
Myanmar	Regency Material Trading Co., Ltd	Retail and Trading
Myanmar	Shwe Byain Phyu Co.,Ltd	Industrial Conglomerates
Myanmar	Shwe Me Co.,Ltd	Retail and Trading
Myanmar	Thu Gyi Min Co.,Ltd	Retail and Trading
Myanmar	Zaykabar Co., Ltd	Construction
Philippines	Aboitiz Power Corp.	Energy
Philippines	Alliance Global Group, Inc.	Industrial Conglomerates
Philippines	Bloomberry Resorts Corp.	Hotels, Restaurants and Leisure
Philippines	Cebu Air, Inc.	Transportations
Philippines	DMCI Holdings, Inc.	Industrial Conglomerates
Philippines	International Container Terminal Services, Inc.	Transportations
Philippines	JG Summit Holdings, Inc.	Industrial Conglomerates
Philippines	Jollibee Foods Corp.	Hotels, Restaurants and Leisure
Philippines	LT Group, Inc.	Industrial Conglomerates
Philippines	Manila Electric Co.	Energy
Philippines	Philippine Long Distance Telephone Co.	Media and Telecommunications
Philippines	San Miguel Corp.	Industrial Conglomerates
Philippines	SM Investments Corp.	Industrial Conglomerates
Philippines	Top Frontier Investment Holdings	Industrial Conglomerates
Philippines	Universal Robina Corporation	Food, Beverages, and Tobacco
Singapore	Banyan Tree Holdings Ltd.	Hotels, Restaurants and Leisure
Singapore	China Aviation Oil Singapore Corp. Ltd.	Energy
Singapore	Golden Agri-Resources	Food, Beverages, and Tobacco
Singapore	Broadcom	Industrial Machinery and Materials
Singapore	ComfortDelGro Corp. Ltd.	Transportations
Singapore	Flextronics International	Industrial Machinery and Materials
Singapore	Fraser & Neave	Food, Beverages, and Tobacco
Singapore	Global Logistic Properties	Transportations
Singapore	Hyflux Ltd.	Industrial Machinery and Materials
Singapore	Keppel	Industrial Conglomerates
Singapore	Olam International	Food, Beverages, and Tobacco
Singapore	Raffles medical Group Ltd.	Health Care
Singapore	Sembcorp Industries Ltd.	Energy
Singapore	Singapore Airlines Ltd.	Transportations
Singapore	Singapore Post Ltd.	Transportations
Singapore	Singapore Press Holdings Ltd.	Media and Telecommunications
Singapore	Singapore Technologies Engineering Ltd.	Transportations
Singapore	Singapore Telecommunications Ltd.	Media and Telecommunications
Singapore	StarHub Ltd.	Media and Telecommunications
Singapore	Wilmar International Ltd.	Food, Beverages, and Tobacco
Thailand	Advanced Info Service	Media and Telecommunications
Thailand	Airports of Thailand	Transportations

Thailand	Bangkok Dusit Medical Services Public Co. Ltd.	Health Care
Thailand	Banpu Public Co. Ltd.	Energy
Thailand	Charoen Pokphand Foods	Food, Beverages, and Tobacco
Thailand	CP All	Food, Beverages, and Tobacco
Thailand	Delta Electronics (Thailand) Public Co. Ltd.	Industrial Machinery and Materials
Thailand	Ichitan Group Public Co., Ltd.	Food, Beverages, and Tobacco
Thailand	Indorama Ventures	Industrial Machinery and Materials
Thailand	Italian-Thai Development Public Co., Ltd.	Construction
Thailand	Minor International Public Co., Ltd.	Hotels, Restaurants and Leisure
Thailand	PTT Exploration & Production Plc	Energy
Thailand	PTT Global Chemical	Industrial Machinery and Materials
Thailand	PTT PCL	Energy
Thailand	Saha Pathanapibul Public Co., Ltd.	Industrial Conglomerates
Thailand	Siam Cement	Construction
Thailand	Thai Airways International Public Co. Ltd.	Transportations
Thailand	Thai Oil	Energy
Thailand	Thai Union Group Public Co. Ltd.	Food, Beverages, and Tobacco
Thailand	ThaiBev	Food, Beverages, and Tobacco
Thailand	Total Access Communication Public Co., Ltd.	Media and Telecommunications
Thailand	True Corp. Public Co., Ltd.	Media and Telecommunications
Vietnam	FPT Corp.	Media and Telecommunications
Vietnam	Petrovietnam Gas JSC	Energy
Vietnam	Vietnam Dairy Products	Food, Beverages, and Tobacco

Source: AJC's compilation.

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